

# abrdn Absolute Return Global Bond Strategies Fund



30 April 2022

## Market review

February was another challenging month for financial markets, broadly split into two halves. Earlier in the month, less supportive rhetoric from central banks in the face of heightened inflationary pressures drove financial markets. Later in the month, however, the main driving force was Russia's invasion of Ukraine. The conflict led investors to shun risk assets and seek shelter in safe-haven assets, which rallied as a result.

Rising uncertainty around the potential economic impact of international sanctions on Russia, a significant commodity market player, further impeded risk sentiment. The EU, US, UK, Japan and other countries have all imposed sanctions on Russia in response to the invasion. Commodity markets rallied as supply chain issues reappeared. Crude oil reached highs that have not been hit in more than a decade, further adding to the already elevated inflationary expectations. Against this backdrop of geopolitical turmoil and aggressive central banks, risk assets retreated.

Developed market sovereign bonds were also volatile and ended the month slightly lower. After initially falling sharply at the beginning of the period amid the hawkish stances from central banks, bond prices partially stabilised later in the month as elevated geopolitical tensions weighed on sentiment.

In foreign exchange (FX) markets, the US dollar continued to strengthen, while the Russian ruble was the worst-performing currency. Commodity-driven currencies rallied at the end of the month.

## Portfolio review

The ARGBS Australian Master Trust Fund returned -1.69% (net of fees) during the month. The benchmark Bloomberg AusBond Bank Bill Index returned 0.01%.

The Fund positioning has been based on the expectation that economic growth and inflation will remain strong as we move through the first half of 2022, allowing central banks to tighten policy. Our bond

market positions provide exposure to the global economic recovery and enhance the income-generating component of the portfolio. Holdings include global short-dated credit, high-yield credit, contingent capital bonds and asset-backed securities. Additionally, our US inflation strategy gives the Fund exposure to near-term pricing pressures.

During February, positive performance from our favoured cyclical FX strategy was not enough to offset negative performance from our risk-facing assets exposures, such as our emerging markets income and high-yield bond positions, which struggled as conflict on the Russian-Ukrainian border escalated and surprised investors. Our global FX behavioural relative value strategy also suffered in this environment.

We adjusted the overall risk as our views on the global outlook evolved. Earlier in the period, we added cyclical exposures via our favoured cyclical FX strategy on the premise that global growth remained positive but was slowing from high levels. Later in the period, we enhanced defensiveness. We converted the US flattener position into a US interest rates strategy. Moreover, we added a German versus Italian interest rates strategy, which exploits the fact that European inflation continues to surprise on the upside while Italian debt dynamics remain weak and the market underestimates the political risks underpinned by the re-election of President Sergio Mattarella.

Elsewhere, we opened a US dollar versus Chinese renminbi position to exploit the relative policy setting between the US and China. The latter is anticipated to loosen policy to achieve its growth target while the former begins hiking rates and subsequently removing liquidity. Additionally, we closed our global FX behavioural relative value strategy.

## Outlook

Recent global developments have led us to reduce our exposure to risk assets and add defensive positions at the end of February. We still believe that the second half of this

## Investment strategy

The Fund will invest in the Underlying Fund and may hold up to 5% of its assets in cash.

The Underlying Fund aims to deliver a return of SONIA plus 3% per annum, before charges, over rolling three-year periods.

The investment team who actively manage the Underlying Fund have a wide investment remit to help them try to achieve this aim. The team look to exploit market inefficiencies through active allocation to a diverse range of market positions.

The Underlying Fund utilises a combination of traditional assets (such as bonds, cash and money market instruments) and investment strategies based on advanced derivative techniques resulting in a highly diversified portfolio.

The Underlying Fund can take long and short positions in markets, securities and groups of securities through derivative contracts.

## Investment objective

The primary investment objective of the Fund is to deliver a positive absolute return over the medium to long term in all market conditions.

The Underlying Fund is actively managed, with a wide investment remit to target a level of return over rolling three-year periods equivalent to cash\* plus 3% per year, before charges. We would expect it to exhibit annualised volatility\*\* of less than 5% in ordinary market conditions\*\*\*.

\*Cash returns are currently referenced to SONIA (which has been chosen as a proxy for the return on cash deposits), however the reference index may change over time. Performance of the Australian dollar hedged share class will instead be compared with the Bloomberg AusBond Bank Bill Index.\*\* Measured over 3 years of monthly returns.\*\*\* The investment objective is expressed before the deduction of management fees, expense recoveries and taxation.

year will see strong inflationary pressures, and a slight pickup in demand as the global economic recovery from its Covid-induced slumber continues. However, our expectation of the level of global growth has fallen. Our portfolio remains slightly risk-facing and holds positions that will benefit from regional divergence.

*Fund performance is available on the relevant factsheet.*

**Contact us**  
Telephone:  
1800 636 888 or +61 2 9950 2853 if  
calling from outside Australia  
Email: [client.service.aust@abrdn.com](mailto:client.service.aust@abrdn.com)

[abrdn.com.au](http://abrdn.com.au)

**Important information**

Issued by abrdn Australia Limited ABN 59 002 123 364 AFSL No. 240263. This document has been prepared with care, is based on sources believed to be reliable and opinions expressed are honestly held as at the applicable date. However it is of a general nature only and we accept no liability for any errors or omissions. This is not an offer of securities. A Product Disclosure Statement (PDS), application form, and Target Market Determination (TMD) is available for each Fund by calling abrdn Australia Limited Client Services on 1800 636 888, at [www.abrdn.com/aus](http://www.abrdn.com/aus), or from your financial adviser. This document has been prepared without taking into account the particular objectives, financial situation or needs of any investor. Investments are subject to investment risk, including possible delays in payment and loss of income and principal invested. It is important that before deciding whether to acquire, hold or redeem an investment in a Fund that investors consider the Fund's PDS, the Fund's appropriateness to their own circumstances, objectives and financial situation and consult financial and tax advisers. Past performance is not a reliable indicator of future results. All dollars are Australian dollars unless otherwise specified. Indices are copyrighted by and proprietary to the issuer.