

Aberdeen Standard Absolute Return Global Bond Strategies Fund



31 October 2021

Market review

Fixed income markets faltered during the month amid growing concerns about the effect of sustained supply issues and higher energy costs on short-term inflation. This backdrop, together with the move by some central banks to tighten monetary policy during the month, gave credence to expectations for the faster withdrawal of supportive monetary policy measures. As a result, there was a sharp drop in shorter-dated bonds. Developed markets sovereign bonds lost ground, with the notable exception of UK gilts, which rose following a larger-than-expected reduction in planned bond issuance, as did corporate bonds. Emerging market (EM) debt also subsided struggled.

Portfolio review

The ARGBS Australian Master Trust Fund returned -1.39% (net of fees) during the month. The benchmark Bloomberg AusBond Bank Bill Index returned 0.0%.

Exposures to interest rates, inflation and EMs drove the negative performance. Gains from our US yield curve flattener were more than offset by losses from our European yield curve steepener as the interest rate curve flattened. Similarly, our overall inflation exposure detracted from performance as the positive return from our European inflation position was more than offset by the poor performance from our short UK inflation strategy. Additionally, our allocations to Mexican interest rates, Asian corporate bonds and short-dated EM corporate bonds detracted from performance.

On a positive note, our foreign exchange (FX) allocations, such as our FX favoured carry strategy, posted gains.

We continued to adjust our inflation exposure given the high level of uncertainty surrounding inflation in the near term. We reduced both our short UK inflation and European inflation strategies. We also took profits from our US yield-curve flattener after it had performed in line with our expectations and increased our US interest rates volatility strategy.

Outlook

We expect the cyclical recovery to continue as the Covid-19 vaccine rollout accelerates and economies move towards normality. It might be a bit bumpy along the way and there will be regional differences, especially across EMs. We do not believe central banks will act pre-emptively and risk derailing the economic recovery, but we are likely to see a move towards less dovish policy going forwards as they move from emergency settings and seek to address elevated levels of inflation.

The Fund's positioning has been based on our expectation that growth will remain strong, inflation will taper off towards 2022 and central banks will tighten monetary policy slowly. In this environment, we expect EM bonds to generate a modest positive return. At the same time, we have also adjusted the portfolio to account for a more material moderation in the growth outlook.

Our portfolio is net long credit exposure through global short-dated corporate bonds, high-yield corporate bonds, contingent capital bonds and asset-backed securities. These provide exposure to the global economic recovery and enhance the income-generating component of the portfolio. Additionally, through our European inflation strategy we are also exposed to near-term price increases.

We also retain foreign currency, EM and interest rate positions. We expect these to dampen the effects of heightened market volatility on portfolio returns, particularly given the uncertainty surrounding the impact of Covid-19 virus mutations, vaccine access, challenges on the success of vaccination programmes and continuing geopolitical risks.

Fund performance is available on the relevant factsheet.

The opinions expressed are those of Aberdeen Standard Investments as of the date of publication and are subject to change at any time due to changes in market or economic conditions.

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 3 month Sterling LIBOR 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.

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

abrdn.com.au

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