Aberdeen Standard Global Absolute Return Strategies Fund

30 November 2021

Market review

Financial markets stumbled in November amid concerns around the emergence of the Omicron variant of Covid-19 and rising cases. Risk appetite deteriorated given the reintroduction of Covid restrictions, resulting in a weaker growth outlook. Against this backdrop, risk assets lost ground with global equities and high-yield corporate bonds ending the month lower. News of the Omicron variant also added to volatility in oil, compounding a downward trend triggered by announcements of supply increases. The sell-off in emerging market assets intensified, partly driven by the prospect of the US Federal Reserve tightening monetary policy and partly by the new variant concerns.

Developed market sovereign bonds outperformed as uncertainty around the impact of the new Covid-19 variant on vaccine efficacy and the weaker growth outlook saw investors move into more defensive assets. Despite this, comments from Fed board members suggested that tapering of asset purchases may still be brought forward given the current elevated inflation readings. The latest US Consumer Price Index printed at 6.2%, while euro area inflation was comparatively lower at 4.9%.

Within foreign currency markets, the move into defensive assets benefitted the US dollar. It strengthened as the surge in inflation fueled expectations of tighter monetary policy.

Portfolio review

The Aberdeen Standard Global Absolute Return Strategies Fund returned -0.14% during the month (net of fees). The benchmark Bloomberg AusBond Bank Bill Index returned 0.01% during this period.

The Fund positioning has been based on the expectation that growth will remain strong and inflation will gradually moderate as we move through the first half of 2022, allowing central banks to tighten policy slowly. In this environment, we have been focused on owning higher-yielding assets across equities, corporate bonds, currency and volatility strategies.

Performance was flat in November. Our risk-facing assets, such as equities and high-yield bonds, were negatively affected by the emergence of the Omicron variant. Our overall inflation exposure also detracted from performance as the positive return from the European inflation position was more than offset by weakness from our short UK inflation strategy.

Conversely, our diversifier and defensive strategies performed well. Lower natural gas and oil prices drove strong returns from our commodity carry strategy. Additionally, our South African government bonds and Mexican interest rates allocations posted positive returns. In the latter case, our position benefitted from the central bank revising its outlook, whereas in the former, the return was mainly driven by the currency hedge embedded within the strategy.

Within foreign currency markets, expectations of increasing interest rates caused the US dollar to appreciate against most currencies, helping to drive positive returns from our US dollar versus euro currency pair. This was offset by the weaker performance of our favoured foreign exchange (FX) carry strategy, as emerging markets currencies depreciated against safe haven currencies. Similarly, our Australian versus New Zealand dollar positions, which we reduced earlier in the period, also modestly detracted from performance.

Elsewhere, our European yield-curve steepener strategy gained ground as the interest rate curve steepened.

We increased the risk inherent within the Fund as more opportunities to deploy capital emerged. Earlier in the period, we substantially increased our high-yield bond allocation, given expectations of gradual and measured changes to central bank policy.

We reduced our Australian versus New Zealand dollar position given our lower conviction in the strategy driven by the Reserve Bank of Australia's dovish stance.

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 ESTR plus 5% 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 equities, 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 5% per year, before charges. We would expect it to exhibit annualised volatility** of between 4% and 8% in ordinary market conditions or, more broadly, between one-third and a half of the risk of global equities***.

*Cash returns are currently referenced to ESTR (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

At the same time, the Reserve Bank of New Zealand remains on the path to higher interest rates amid the country's strong economic performance.

We also consolidated the portfolio's diversified foreign currency exposure by shifting our Indian rupee versus Taiwanese dollar strategy into the favoured FX carry position. Towards the end of the period, we adjusted our defensive currency exposures by taking some profits from our US dollar versus euro pair following strong performance and adding a favoured protection FX strategy.

Outlook

We remain guided by the conviction that economic growth continues to be strong, and inflation rises above central bank targets are transitory. In this environment, we expect positive returns from risk assets, such as equities and corporate bonds.

Beyond our central case, we also consider the possibility of a variety of alternative scenarios
- firstly, the upside case that the Fed tolerates higher inflation than expected, pushing real interest rates lower and strongly promoting cyclical risk assets, and secondly, the downside scenario that central banks, and the Fed in particular, could start removing stimulus earlier than expected, delivering a shock to markets and causing equities to slide.

Fund performance is available on the relevant factsheet.

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

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