abrdn Global Absolute Return Strategies Fund

abrdn

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Market review

2022 has been a turbulent year, and the losses seen in traditional asset classes were not recouped in December. Both major equity and bond markets were down on the month, with defensive equities somewhat insulated. The S&P 500 Index posted losses of 5.8% on the month while US Treasuries fell 0.7%. Global value equities fell around half the amount that growth equities fell (-2.6% versus -5.8% in MSCI value versus growth indices, respectively) while safe-haven assets rallied as recessionary fears continued to rise.

Inflation data and fears continued to fall. The latest US consumer price index print was 7.1% in November and has been on a continuous downward trajectory from the highs seen back in June 2022 (9.1%). In Europe, there have only recently been signs of weakening inflationary pressures.

Central banks slowed the pace of their interest-rate hikes, with the Royal Bank of Australia slowing to moderate basis point (bp) hikes per meeting and the US Federal Reserve (Fed) and Bank of England (BoE) slowing to 50 bp hikes from their 75 bp hikes earlier in the year.

Interestingly, the Bank of Japan (BoJ) made a dramatic move in its monetary policy by increasing its yield curve control (YCC) target from 0.25% to 0.5% for its 10-year benchmark bond. As a result, we saw the Japanese yen appreciate about 5%.

Corporate bond markets saw little change. There was a slight widening compared to the start of December, with high-yield bonds trading in a 50 bp range and investment-grade bonds in a 20 bp range.

The events throughout 2022 have led to elevated global fixed-income yields. Bonds are normally seen as a defensive asset and perform well during periods of risk-off sentiment that arise from poor economic conditions and political turmoil. However, we have seen both equities and bonds perform poorly.

Performance

The abrdn Global Absolute Return Strategies Fund returned 2.96% during the month (net of fees).

December was a strong month for our short corporate risk and defensive positions due to the market sell-off. Our short equity strategies performed particularly well, including the US equity low volatility index versus US equity strategy, the long US investment-grade corporate bond versus short equity strategy and the short European equity strategy, which all benefitted from a short growth bias compared to the wider equity market. Secondly, our US versus Italian rates position was one of the top performers, as Italian inflation and confidence indicators surprised to the upside (implying that the economy is experiencing overheating pressures) while the reverse continued in the US. Our long favoured defensive foreign-exchange position benefitted this month, particularly the long Japanese yen position, given the announcement from the BoJ on the changing of its YCC target. One of our poorest performing strategies was our global equity stable quality versus market strategy, given the broad sell-off across equity markets. Our duration positions also underperformed, as bonds sold off in the US. We have since closed our US steepener position.

Activity

We made the majority of our strategy changes early in the month given the reduced liquidity during the holiday period. We exited both the US steepener and commodity carry positions. We also altered our short sterling foreign-exchange positions, closing the Swiss franc long in favour of the euro and US dollar. This was following the contrast between the Fed's and European Central Bank's less-supportive commentary versus that of the BoE. Lastly, we took profit on our US versus Italian rates strategy given recent outperformance.

Outlook

The Fund's positioning reflects what we see as a challenging period ahead for markets. At present, the rhetoric around inflation

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

and central bank tightening is dominating market dynamics. This is a theme we expect to evolve as the focus moves to the consequence of weaker growth. The Fund is positioned to perform well in a scenario where monetary tightening leads to a recession (with both growth and inflation declining) while also delivering positive returns under a continuation of the environment observed since the start of 2022 (with inflation elevated).

Against this backdrop, we continue to tactically manoeuvre the portfolio to account for momentum while taking advantage of tightening financial conditions into slower growth (via defensive positions in relative-value strategies and a bias towards short corporate-risk positions). Our positioning in duration continues to be slightly positive, and we are looking for opportunities to add to this positioning in these volatile conditions. In addition, we maintain longs in the US dollar and defensive currencies against the backdrop of worsening global conditions.

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.

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