

# abrdn Global Absolute Return Strategies Fund



31 January 2023

## Market review

Markets began the year with advances across equities, corporate bonds and government bonds. Investor risk appetite increased because of declining energy prices, China's easing of its restrictions and the improving outlook for the European economy. However, there are still fears of a coming US recession.

In China, investors remained optimistic over the country's continued reopening, which supported a strong rally across Chinese assets, with the Shanghai Composite up 5.4%. While China's reopening was a positive driver for markets, it raised concerns over further inflationary pressures globally.

There were also positive developments in Europe. Energy prices continued their decline, with natural gas futures falling 24.8% in January. Many economists have now adjusted their forecasts and are not predicting a recession in Europe during 2023.

However, fears about a US recession continued. This was evident in the contractionary ISM Manufacturing Index readings for both services and manufacturing in December. Retail sales and industrial production data both missed expectations. The yield curve remains deeply inverted.

Following the US consumer price index print release for December, investors had more conviction in the expectations of the Federal Reserve to downshift its rate hikes to 25 basis points at the February meeting. The Bank of Canada also announced a pause in its rate hikes.

## Performance

The abrdn Global Absolute Return Strategies Fund returned -1.52% during the month (net of fees).

Top performers this month included the global equity zero hunger strategy, as its long basket has a growth bias in comparison to the defensive short bias of the Consumer Staples Index. This strategy

benefitted from the risk-on rally in January. Secondly, given the risk-on theme, our US duration position also performed well, with US treasuries posting gains of 2.8%. Our ASEAN versus North Asia foreign exchange position contributed positively this month, particularly driven by the outperformance of the Thai baht and Singapore dollar currencies. This was due to China's reopening, which had a spill-over effect and was a key boost for the tourism industry in Thailand. Our short corporate risk positions were some of the worst performers this month. Our outright short European and US equity strategies underperformed. Our equity relative-value strategies underperformed, including our US equity low volatility index versus US equity strategy and our stable quality versus market strategy.

## Activity

During January, we altered some of our foreign exchange positions. We added a favoured foreign exchange carry strategy and refined our short sterling and long favoured defensive foreign exchange strategies. The addition of the Brazilian Real, the Mexican peso and the Indonesian rupiah through the favoured foreign exchange strategy helped to increase carry and growth exposures. We also expect short-term pressures on the US dollar given the narrowing growth rate differentials. In our ASEAN versus North Asia foreign exchange strategy, we removed our short Chinese renminbi versus US dollar position, as the Chinese renminbi is likely to benefit from China's reopening. Further to this, we added a China reopening basket, which aims to benefit from the improving growth outlook for China. We also added an MSCI emerging markets versus EAFE Index equity relative-value strategy, which aims to benefit from the derating and negative earnings growth that emerging markets have experienced, providing an opportunity for a rebound versus the EAFE Index and outperformance in a global recessionary environment.

## Outlook

The Fund's positioning reflects what we see as a challenging period ahead for markets.

## 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 present, the rhetoric around inflation 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 over the last year (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.

*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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