Aberdeen Standard Global Absolute Return Strategies Fund

31 August 2021

Market review

August was a steady month for financial markets, albeit with some volatility as investors focused on Federal Reserve (Fed) Chairman Jerome Powell's speech at the Jackson Hole conference of central bankers. Powell laid the groundwork for a reduction in asset purchases in 2021. Still, his more supportive tone eased concerns about interest-rate hikes any time soon, further reinforcing the view that inflation is likely to be short-lived. This development led to a fall in the US dollar (after rising 1.5% by the middle of the month) and provided further support for risk assets. Meanwhile, the US jobs report for July, which was the strongest reading in 11 months, and some progress on the Biden administration's economic agenda lifted sentiment.

Most developed market government bonds saw some modest declines over the month, with 10-year US Treasuries, German bunds and UK gilts retreating. Elsewhere, vaccine rollouts in the UK, Europe and the US should allow a return to normality. However, many countries are lagging with their respective vaccination programmes, particularly in Asia and emerging markets (EMs). As these regions re-enter strict lockdowns until vaccination rates rise, there is a concern that global growth could moderate further, and there could be lingering supply chain disruptions.

Portfolio review

The Aberdeen Standard Global Absolute Return Strategies Fund returned 0.86% during the month (net of fees). The benchmark Bloomberg AusBond Bank Bill Index returned 0.0% during this period.

The Fund is positioned for strong economic growth and a gradual fall in inflation towards the end of the year, with central banks likely to remain supportive. Our thematic equity exposures, such as stable quality and industrial automation, performed well over the month. Similarly, our high-yield bond position did well on improved risk sentiment during August. Meanwhile, our European inflation exposure partially offset the negative impact from the short UK inflation position.

Lastly, our favoured foreign exchange carry strategy contributed positively.

We continued to add to the Fund's income generation during August. Specifically, at the beginning of the month, we increased our commodity carry exposure and added a new position in Mexican interest rates. Our view is that the market expectation for interest rates increases in Mexico is excessive. However, as yet we have added only a modest position as we expect there could be volatility as the central bank navigates through this period of elevated inflation.

Outlook

Our central case is one of strong economic growth, while any rises in inflation above central banks' targets are likely to be short-lived. In this environment, we expect positive returns from riskier assets like corporate bonds and equities, with nominal and real interest rates remaining fairly stable. However, we are mindful of different market scenarios. In particular, if the Fed tolerates higher-than-expected inflation, this will push real interest rates lower. As a result, riskier assets that benefit from a strong economy should do well. Alternatively, central banks, particularly the Fed, could start removing support earlier than expected, which might have a negative impact on riskier assets.

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 6 Month EURIBOR 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 6 month EURIBOR (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@aberdeenstandard.com

aberdeenstandard.com.au