abrdn Global Absolute Return Strategies Fund

30 June 2022

Market review

In June, there was continued volatility across financial assets, as a myriad of concerns plagued investors. US manufacturing and consumer confidence surveys pointed toward worsening economic expectations; a trend already apparent in Europe. Inflationary pressures persisted, with inflation in the US, Spain and Germany recording higher-than-expected figures. Inflationary expectations have also begun to move upwards over the medium-term horizon. Many central banks, such as the US Federal Reserve (Fed), the Reserve Bank of Australia and the central bank of Norway, increased interest rates in a bid to combat inflation, tightening their respective monetary policies more than investors had anticipated. Meanwhile, the European Central Bank (ECB) built up its less-supportive rhetoric, with the intent to start increasing interest rates in July. However, the ECB also announced measures to help combat the increase in funding costs for European peripheral nations with the development of an anti-fragmentation tool.

China re-emerged from its lockdown protocols as a result of its zero-Covid-19 policy. Xi Jinping reiterated that this policy was the best measure to combat the current Covid-19 pandemic, meaning lockdown uncertainty is likely to remain.

Global equities fell from the start of the month because of continuing recessionary fears. Japan outperformed its peers while US equities appeared to suffer the most. Around the middle of the month, equities recovered slightly, in line with the rally in global bonds.

Corporate bonds fell, as the thought of higher funding costs for companies seeped into valuations, with high-yield bonds underperforming investment-grade bonds. Government bonds sold off, as central banks hiked more than investors had anticipated.

Portfolio review

The abrdn Global Absolute Return Strategies Fund returned 1.07% during the month (net of fees). The benchmark Bloomberg AusBond Bank Bill Index returned 0.05% during this period.

The Fund positioning reflects what we see as a challenging period ahead for markets. At present, fears around inflation and central bank tightening are dominating market dynamics, a theme we expect to shift as the focus moves to the consequence of weaker growth. As a result, we expect risk premia to rise across all markets. Against this backdrop, we maintain our defensive positions in relative-value strategies and continue to favour short corporate risk positions, as we expect earnings to fall relative to expectations. In addition, we maintain longs in the US dollar and developed government bonds.

Our top contributor this month was a short European equity exposure, which performed well, as global equities sold off. Our long US investment-grade credit versus short equity and our US equity low volatility versus market relative-value strategies also contributed, although the UK versus emerging market relative-value position detracted from performance. The portfolio's Australian interest-rate position was the largest detractor. In foreign currency positions, our long defensive foreign exchange basket contributed positively this month, significantly affected by strong US dollar performance.

Activity

We added positions in Asian markets this month, which include the relative-value strategy of Chinese equity versus developed-market equity, as we see upside benefits to come from the reopening of the Chinese economy after the latest Covid-19 wave, and a relative-value position in Asian versus North Asian foreign exchange. We also added a commodity carry position amid signs of slowing growth beginning to impact commodity prices. Towards the end of the month, we altered our foreign-currency positions to tilt away from the euro and towards the Swiss franc while increasing our sterling short position. Lastly, we switched risk away from the short European equity strategy and added to our short high-yield bond positioning.

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

Past performance is not a reliable indicator of future results.

Outlook

As aforementioned, the Fund positioning reflects what we see as a challenging period ahead for markets because of fears around inflation, central bank tightening and weaker growth. There are three broad scenarios that we expect to dominate market pricing going forward: a US recession, stagflation and a near-miss, where the Fed walks the tightrope and avoids a recession.

As a consequence of this view, we have positioned the Fund to take advantage of tightening financial conditions into slower growth via a short bias towards equity and credit. In addition, given the significant amount of dispersion expected across regions and sectors, we have been focusing on relative-value positions. On the developed-market government bond side, we have been adding exposure on a weaker growth path and we maintain a long US dollar bias within the currency strategies.

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

Important information
Issued by abrdn Australia Limited ABN 59 002 123 364 AFSL No. 240263. This document has been prepared with care, is based on sources believed to be reliable and opinions expressed are honestly held as at the applicable date. However it is of a general nature only and we accept no liability for any errors or omissions. This is not an offer of securities. A Product Disclosure Statement (PDS), application form, and Target Market Determination (TMD) is available for each Fund by calling abrdn Australia Limited Client Services on 1800 636 888, at www.abrdn.com/aus, or from your financial adviser. This document has been prepared without taking into account the particular objectives, financial situation or needs of any investor. Investments are subject to investment risk, including possible delays in payment and loss of income and principal invested. It is important that before deciding whether to acquire, hold or redeem an investment in a Fund that investors consider the Fund's PDS, the Fund's appropriateness to their own circumstances, objectives and financial situation and consult financial and tax advisers. Past performance is not a reliable indicator of future results. All dollars are Australian dollars unless otherwise specified. Indices are copyrighted by and proprietary to the issuer.