

abrdn Global Absolute Return Strategies Fund



30 September 2022

Market review

Throughout September, there was continued weakness across traditional risk assets. The month was characterised by ongoing investor concerns over inflation, further rate hikes across developed-market economies and low growth, which led to broad-based sell-offs in equities, corporate bonds and sovereign bonds, as well as continued US dollar strength.

During the month, the US Federal Reserve followed through on its recent less-supportive messaging and hiked rates by 75 basis points (bps), its third consecutive 75bps hike. Markets are pricing in a further 125bps in the next six months.

In Europe, it was a similar story, although from a lower base. The European Central Bank (ECB) delivered a 75bps hike in September, which was higher than its previous guidance of a 50bps hike. As headline inflation nears 10%, markets are pricing a further 75bps hike from the ECB in October. Concerns continued over the ongoing energy crisis, particularly as the Nord Stream pipelines ruptured during the month, causing gas leaks into the Baltic Sea.

In the UK, there was significant market turmoil towards the second half of the month, as Chancellor Kwarteng announced the UK Government's mini-Budget. The budget outlined the biggest programme of tax cuts for the UK since 1972, which was to be funded by new borrowing. Sterling fell significantly on the back of the announcement, hitting an all-time low against the US dollar at \$1.035. This was sterling's worst performance against the US dollar since the 2008 financial crisis. UK gilts and the FTSE 100 Index were also significantly down on the announcement. After the extreme market reaction, the Chancellor reversed the scrapping of the 45% rate of income tax at the upper bound.

Performance

The abrdn Global Absolute Return Strategies Fund returned 0.16% during the month (net of fees). The benchmark Bloomberg AusBond Bank Bill Index returned 0.15% during this period.

The Fund's 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. This is a theme we expect to evolve as the focus moves to the consequences of rising interest rates and weaker growth. As a result, we expect risk premia to rise across all assets. Against this backdrop, we maintain our defensive positions in relative-value strategies and continue to favour short corporate risk positions. We expect earnings to weaken going forward. In addition, we maintain longs in the US dollar and developed-market government bonds.

Our UK versus emerging-market-equity relative-value strategy was the top performer this month. Its performance was helped by the significant drop in sterling given the market turmoil following the Chancellor's mini-Budget announcement. This also benefitted our short sterling currency position. Our other currency strategies were also among the top performers this month; these included our long-favoured defensive currency strategy and our long US dollar versus Chinese renminbi strategy, which benefitted particularly from the continued rally in the US dollar given the monetary tightening environment, as investors flocked to safe-haven markets. The dollar rally also exacerbated the downside on sterling, further benefitting our short positions. Our biggest detractors this month were our duration strategies, which included our European real yields and US steeper positions, as concerns over the rate-hiking paths continued. During the month, we moderately reduced our duration exposure. Lastly, some of our strategies that were exposed to corporate risk underperformed, such as our long US investment-grade corporate-bond versus short equity strategy and our global equity zero hunger strategy.

Activity

During the month, we altered our duration positions, modestly reducing our US steeper and European real-yields positions while adding to our long Brazilian

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

rates position, given the significant room for rate cuts to come in Brazil. We also altered our currency positions. Following its strong performance, we reduced our long US dollar versus Chinese renminbi position in favour of a larger short sterling position, given the unsupportive backdrop following the UK mini-Budget announcements. Lastly, we have modestly added to our short US equity risk positions, as we continue to see corporate risk under pressure given the low-growth environment.

Outlook

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).

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 corporate bonds. In addition, given the significant amount of dispersion expected across regions and sectors, we have been focusing on relative-value positions. While we expect our developed-market government-bond exposures to work well in a possible recessionary environment, we have reduced these in favour of our defensive currency positions, which should also perform well in this environment but will perform better in a continuation of the current environment.

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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