

31 January 2023

## Market review

Global investment-grade corporate bonds rose in January. Sovereign bond yields fell, with the 10-year US Treasury bond yield falling by 37 basis points (bps) to 3.51% while the 10-year German bund yield closed the month 28bps lower at 2.29%. Credit spreads also contracted. As a result, the total index return for the period was 3.22% (hedged to Australian dollars).

Bonds performed well in January, with falling yields and rising prices among both sovereign and corporate issues. Inflation data showed decelerating price rises across major economies. The UK's Consumer Price Index rose 10.5% year on year in December, slightly down from 10.7% in November. In the Eurozone, annual headline inflation was 9.2% in December, down from 10.1% in November. Meanwhile, in the US, it fell to 6.5% from 7.1% over the same time period. Investors are now expecting smaller rate hikes in the US; the Bank of England, US Federal Reserve (Fed) and European Central Bank are all due to meet again in early February. The International Monetary Fund raised its global growth forecast for 2023. The report noted that the risk of a global recession has waned, given "surprisingly resilient" demand in both the US and Europe.

## Portfolio review

The Fund outperformed its benchmark in January, owing to good stock selection and positioning in A and BBB rated bonds.

Bank holdings performed well over the period. In particular, Barclays, Bank of America and Société Générale performed well. In the property sector, holdings in Sunac and Sirius outperformed. On the downside, our US Treasury holdings underperformed in risk-on conditions. We have zero exposure to Aroundtown, which rebounded from recent underperformance. An overweight in Volkswagen also weighed on returns.

In the primary market, we bought the attractive euro new issue 2028 bonds of BPCE. In US dollars, we bought the 2034 bonds of PNC Financial and the 2038 bonds

of Morgan Stanley. In the utilities sector, we bought Engie's 2035 and 2043 euro bonds as well as the corporate hybrids of EDP.

In the secondary market, we bought the euro 2034 green bonds of EDF, which are more attractive than EDF's new issue bonds. On the sell side, we sold American Tower's 2027 and 2028 bonds to reduce risk in light of a rumoured acquisition of Cellnex. We reduced our overweight in T-Mobile and reduced our holding in General Motors.

## Outlook & strategy

Overall, we remain constructive on the outlook for global corporate bonds, although spreads so far this year have done well, and corporate bonds are at fuller valuations. There remain risks to our outlook, including recession in the US and more tightening from the central banks in response to firm labour markets. In Europe, gas prices have fallen to levels before Russia invaded Ukraine, and storage levels remain high for this time of the year. This has positive implications for the inflation and growth outlook in Europe. China is reopening after dropping its zero-Covid policy, which will lift global growth and benefit Europe via Europe's export channel as well as an increase in tourism. Typically, a growth impulse of +1% in China translates into an uplift of 0.1

- 0.2% in European growth. While the reopening of China is positive, it might affect the inflation outlook by easing supply chain bottlenecks on one side but increasing demand for commodities and goods on the other. Given headline inflation is now falling and central banks have done most expected rate hikes, they are unlikely to overshoot current market expectations. This is positive for bond markets in general, and credit in particular, and has led to increased inflows into the asset class. We think this trend will continue for the foreseeable future.

Against this backdrop, we have fully invested the portfolio into credit over the course of the month, further reducing our cash and government bond holdings and increasing duration times spread. We have increased the share of banks, as we continue to see outperformance potential

## Investment strategy

The Fund is actively managed and may invest in a wide range of bonds (e.g. corporate bonds including high yield bonds, government backed securities, overseas bonds, index-linked bonds, floating rate notes ('FRNs') and asset backed securities ('ABSs')) and/or money market instruments) in order to take advantage of opportunities identified.

## Investment objective

The Fund aims to provide long term growth and outperform the Benchmark over rolling 3 year periods (before deduction of fees, costs and taxation) by investing predominantly in global investment grade bonds.

in this sector, and remain overweight senior debt. Our base case continues to be that the hiking cycle of central banks will stop in the first half of 2023 and lower interest-rate volatility compared to last year, which should support demand for corporate bonds. What could derail our positive view is the risk of a recession in the US and/or more tightening from the Fed in response to tight labour markets, more wage pressure and still-high inflation. While the chances of a soft landing have increased, we are not out of the woods yet. We expect the path of the US economy to become the main driver for risk assets.

*Specific share class 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.*

*Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.*

**Contact us**  
Telephone:  
1800 636 888 or +61 2 9950 2853 if  
calling from outside Australia  
Email: [client.service.aust@abrdn.com](mailto:client.service.aust@abrdn.com)

[abrdn.com.au](http://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](http://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.