

# Aberdeen Standard Global Corporate Bond Fund



31 October 2021

## Market review

Spreads for global investment grade bonds widened modestly over the month. Coupled with a further rise in Treasury yields, the total index return was negative at -0.08% (hedged to Australian dollars). In the case of 10-year Treasuries, their yield rose by 7 basis points to 1.56% by the end of the month.

Business growth across Europe remained firm, but elevated inflationary pressures affected demand, with ongoing supply issues also clearly constraining activity. Indicative of this, the Eurozone composite purchasing managers' index (PMI), which is seen as a good guide to overall economic conditions, fell to 54.2 in October from 56.2 in September.

In the US, the Composite PMI Output Index, which tracks business trends across both manufacturing and service sectors, rose to 57.6 in October, up from 55.0 in September. Although manufacturing production continued to be constrained by supply issues, the overall expansion was supported by a sharper service sector upturn. As widely expected, with inflationary pressures building, the Federal Reserve announced in its early November meeting that it would start tapering its bond purchases in the month.

## Portfolio review

The Fund underperformed the benchmark in October. In terms of ratings bands, this mainly reflected our overweight exposure to high yield and BBB rated credits.

In terms of individual holdings, continuing negative news from China, regarding the financial health of the property developer Evergrande, weighed on the broader Chinese real estate sector. This led to negative contributions from our holdings in Sunac, Shimao Group, Zhenro Properties and Country Garden.

On the positive side, the top contribution came from the long-dated bonds of AT&T. Off-benchmark holdings in the German residential real estate company Adler Group also performed well, as they recovered

some of the previous month's losses.

In the primary market, we bought the new 2024 US dollar bonds and 2033 euro bonds of laboratory equipment maker Thermo Fisher Scientific, which benefits from good revenue growth and strong profit margins. We bought the attractively priced 2030 euro green bonds of the real estate investment fund AXA CoRE, which has a preference for central locations in capital cities and modern assets that face lower reletting risks. We also participated in the 2031 new issue euro bonds of UBS, which recently reported excellent, consensus-beating third-quarter results.

In US dollars, we bought the new 2028 and 2032 bonds of the aircraft leasing company AerCap, which is benefiting from steadily normalising global air travel demand. We also bought the 2031 US dollar bonds of the food company General Mills.

In the secondary market, we selectively added exposure to names we like such as Brazilian logging and paper manufacturer Suzano and the South Korean chipmaker SK Hynix. On the sell side, owing to reduced conviction at current prices, we trimmed exposure to the European industrial and logistics real estate company CTP and exited the semiconductor manufacturer Analog Devices.

## Outlook & strategy

October has seen a pick-up in market volatility, as inflation concerns caused government bond yields to rise, with markets pricing in earlier rate hikes by the Federal Reserve and the Bank of England. The European Central Bank's October meeting surprised, given a small hawkish tilt. In particular, President Lagarde was seen as not firmly pushing against recent market pricing of the first rate hike potentially occurring at the beginning of 2023. There was also some lack of clarity regarding what comes after the phase out of the pandemic emergency purchase programme in April 2022.

Inflation rates are likely to remain high in the short term, as energy prices have

## 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.

spiked and further supply bottlenecks have surfaced, driving up prices. While it will likely take well into 2022 to address these bottlenecks, we do think inflation numbers will come down, allowing central banks to be fairly gradual in their policy changes. However, increased uncertainty on the pathway entails increased volatility in government bond rates and, to a smaller extent, credit spreads. While we remain relatively constructive on credit, due to improving fundamentals and a strong technical backdrop, we are holding increased cash in the Fund, as well as a shorter duration position. In the current environment of increasing government bond yields, we continue to prefer banks over corporates.

*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.*

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