# Aberdeen Standard Global Corporate Bond Fund

**31 January 2022**

## Market review

Spreads for global investment grade corporate bonds widened by 11 basis points (bps) in January. However, there was a bigger negative impact from a significant increase in Treasury bond yields, with the 10-year yield rising by 27bps to 1.78% by the end of the month. The total index return for the period was negative at -2.74% (hedged to Australian dollars).

On the economic front, an advanced estimate showed annualised US real gross domestic product (GDP) growth of 6.9% in the fourth quarter of 2021. This was up from 2.3% in the third quarter and well ahead of the 5.5% expected growth. Based on this estimate, 2021's full year US real GDP growth was 5.7%, up from -3.4% in 2020 and the fastest since 1984. Amid a backdrop of largely easing Omicron variant fears, continuing strong economic data and high inflation, the large increase in Treasury yields was mainly driven by speculation regarding the future pace of US monetary normalisation. In Europe too, high inflation readings helped to push bund yields significantly higher, with the 10-year bund yield ending the month with a positive yield (0.01%) for the first time since April 2019.

## Portfolio review

The Fund underperformed the benchmark in January.

Ongoing concerns regarding the Chinese property sector weighed on the Fund's holdings in Shimao, Zhenro Properties, Country Garden, CIFI Holdings and Sunac. Longer-dated bonds also generally fared less well compared to the broader market, including holdings in Salesforce and HCA Healthcare.

On the positive side, amid risk-off conditions, the Fund benefited from its holdings of short-dated Treasury bills. An increased cash position and a tactical defensive short position in the iTraxx Xover index also contributed positively over the month. Continued oil price strength was supportive for the Fund's off-benchmark holdings in the Mexican state-owned oil company Pemex.

In the primary market, in euros, we bought the 2042 bonds of the French insurer AXA, which benefits from strong management, solid capital and improving returns at XL, its reinsurance subsidiary. We increased exposure to the UK electricity and gas utility company National Grid, by buying its new issue euro 2026 bonds. In US dollars, we bought the new issue bonds of Ford, which we think has a good chance of being upgraded in the next 12 to 24 months.

In the secondary market, we initiated some exposure to the capital goods company CNH Industrial, which we feel offers good value compared to other BBB rated companies in the same sector. We also started a new position in LabCorp. On the sell side, owing to elevated valuations in the UK real estate sector, we sold the sterling bonds of Annington Homes and Clarion Housing. We also trimmed Asia risk exposure by selling the corporate hybrids of GLP, which is the region's biggest logistics investor.

## Outlook & strategy

Inflation remains the main risk factor to bond markets. Persistently high inflation numbers have caused central banks to change gears in their guidance for future policy tightening. The Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) have all recently highlighted the concerns of higher-than-anticipated inflation. This has brought forward the start of the rate-hiking cycle for the Fed (likely in March) and the ECB (likely in the fourth quarter of 2022). Rate markets have adjusted accordingly and are now pricing in five rate hikes by the Fed and BoE in 2022, and two by the ECB. We agree with the markets that the Fed will increase rates in March and the subsequent few meetings. Thereafter, Fed actions in 2022 will depend on inflation during the rest of the year. We think the ECB will more likely only deliver one 25bps hike at the end of the year.

All this means in our view that government bond yields have to adjust further and credit spreads will be more volatile until inflation

### 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.

rates roll over, which we expect to happen early in the second quarter. Government bond yields and credit spreads have already corrected materially, improving the valuation of our asset class, but are likely to drift higher in the short term. We have positioned the portfolio more defensively by further reducing spread duration, increasing cash and government bond holdings, as well as maintaining a short interest rate duration position. We are structurally underweight ECB-eligible issuers, due to their relatively tight valuations.

*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.*

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