abrdn Global Corporate Bond Fund

31 July 2023

Market Review

Global investment-grade (IG) corporate bonds rose in July. Sovereign bond yields rose, with the 10-year US Treasury yield rising by 12 basis points (bps) to 3.96% and the 10-year German Bund yield closing the month 10bps higher at 2.49%. However, this was offset by a contraction in credit spreads. As a result, the total index return for the period was 0.55% (hedged to Australian dollars).

The US Federal Reserve (Fed) raised rates by 0.25% at its July policy meeting, as widely predicted, having skipped making changes at its June meeting. Fed Chair Jerome Powell suggested that the central bank may make a further rise in September, as it continues to bring inflation back to its target range. The consumer price index rose by an annualised 3% in June. Data showed a positive outlook for employment, with non-farm payrolls expanding and the unemployment rate at 3.6% in June. Job openings have fallen to a two-year low in June but remain elevated. In Europe, the European Central Bank also raised rates. Headline inflation fell again, reading 5.3% year on year in July, down from 5.5% in June. Core inflation, which excludes food and energy costs, remained unchanged.

Portfolio Review

The Fund outperformed its benchmark, mostly due to good stock selection.

Financial holdings performed well in the month. In banks, Sumitomo Mitsui and the subordinated financials of Barclays gained, as did insurer MetLife . In real estate, Sirius and CBRE performed well. On the downside, Deutsche Telekom, British supermarket Tesco and Heathrow Airport weighed on returns.

Primary market activity was quieter in the month. We bought attractive new issue US dollar bonds such as the 2028 bonds of BFCM, the 2034 bonds of Waste Management and the 2029 bonds of Morgan Stanley. We also bought Toyota's 2030 bond and Heathrow's 2033 bonds in euros. In the secondary market, we topped up preferred US bank holdings, including JPMorgan. After a Wall Street Journal investigation into usage of lead cables by US telecommunications companies, we switched our holdings of AT&T into shorter-dated positions. Lastly, we reduced our holding of Celanese.

Outlook

As we expected, July turned out to be a quieter month with positive returns for credit markets. Going forward, we expect credit spreads will be range bound and returns positive overall, as government bond yields are close to their peaks and the significant yield provides a good carry. Inflation will continue to come down, allowing central banks to finish their hiking cycles. Gross domestic product in the second quarter was more positive than expected; growth will remain sluggish but moderately positive. However, more importantly for risk markets is the direction of the US economy. Economic data in the US has continued to surprise positively and the job market remains strong, making a US recession in the near term less likely which is positive for credit spreads, in our view.

Valuations for euro IG credit are reasonably attractive with spreads materially above long-term averages. Spreads price in neither a US-led global recession nor a no-landing, avoided-recession scenario in the US. Valuations for US dollar IG credit are fuller, reflecting more a soft landing for the US economy. The soft-landing scenario would provide more upside for credit if inflation continues to trend downwards in the reminder of 2023. We remain underweight cyclicals, favouring banks and corporate hybrids of defensive sectors such as utilities and healthcare. We are also aware of seasonal and technical effects which typically become less favourable in September when the primary market gets into full swing. Hence, we will tactically enter September with a higher cash position compared to last month, to take advantage of evolving buying opportunities.

Specific share class performance is available on the relevant factsheet.

The opinions expressed are those of abrdn as

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.

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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