abrdn Global Corporate Bond Fund

31 October 2023

Market Review

Global investment-grade (IG) corporate bonds fell in September. Sovereign bond yields rose, with 10-year German Bund yields closing the month 38 basis points (bps) higher at 2.85% and the 10-year US Treasury yield closing the month 47bps higher at 4.58% [1], and credit spreads slightly widened [2]. As a result, the total index return for the period was -1.98% (hedged to Australian dollars).

Central banks in the UK and US both chose to skip a rate rise at their September meetings. A statement from the Federal Reserve (Fed) described US growth as 'solid'. Annual inflation ticked up in August, with the Consumer Price Index (CPI) rising by 3.7%, up from 3.2% in July, although the rate of increase in the core CPI fell back to 4.3% [3]. At the end of the period, the US Congress agreed on a funding deal that avoids a government shutdown. By contrast, the European Central Bank raised interest rates. Inflation across the eurozone has fallen to a two-year low, with an unexpected fall in France. In Germany, retail sales were lower as consumers felt the pinch.

Portfolio Review

The Fund outperformed its benchmark, mostly due to due good stock selection in BBB rated bonds.

Energy holdings performed well, amid rising oil prices. This included midstream issuers Enterprise Products and oil producer ConocoPhillips. Longer-dated bonds also outperformed, including CSX and McDonald's. On the downside, banks were among the Fund's detractors, including Bank of America, Citigroup, Wells Fargo, Morgan Stanley and UBS.

We bought attractive new US dollar issues in September, including Nordson's new 10-year bond, AerCap's 2027 bond and Constellation Energy's 30-year issue. In euros, we bought Pernod Ricard's 2033 bond, as well as National Grid's 2027 bond. In the secondary market, we topped up our conviction holding in RELX, one of our analyst's preferred issuers in media. On the sell side, we sold down TD Bank and Citigroup.

Outlook

The US economy has been resilient in the face of Fed tightening, while both core and headline inflation have moderated, raising hopes for a possible soft landing. Despite increasing again in September, the US manufacturing ISM survey, however, remains below the 50 mark, a sign that the outlook is still challenging. The eurozone's 'winter recession' has been revised away, but surveys suggest the economy is entering the second half of the year with very little momentum. It is difficult to see how the UK can avoid a recession given the already stagnant growth rate combined with the lagged effects of past tightening about to hit the economy. We believe the bond market sell-off may persist, even with indications of inflation potentially easing. We still believe the major central banks will start easing policy in 2024.

Valuations for euro and sterling IG credit are reasonably attractive, with spreads above long-term averages but not fully priced for a US-led global recession. Valuations for US dollar IG credit, which have cheapened more recently, remain less attractive and price in less of a negative outcome from either a weaker economy or a more aggressive Fed. In the near term, we recognise the importance of yield but prefer to generate yield from fundamentally strong credits rather than venturing into the lowest quality names. We remain underweight sectors that are more exposed to a vulnerable consumer including retailers, homebuilders and consumer finance companies.

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

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.

an investment recommendation or indication of future performance.

1. US 10 Year Treasury Note and Germany 10 Year Government Bond - September 2023 Data (marketwatch.com)

2. Bloomberg Barclays Global Aggregate - Corporates index - September 2023 Data (live.barcap.com)

3. Reuters 'Gasoline lights up US consumer inflation; underlying trend steadily improving' 13 September 2023 (reuters.com)

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