

31 August 2021

Market Review

Risk assets posted divergent performance in August, with equities outperforming bonds. Upbeat corporate results and supportive central bank comments overshadowed concerns over the continued spread of the coronavirus' delta variant.

In global equity, major US indices reached record highs, driven by lawmakers' approval of the US\$1 trillion infrastructure bill and dovish comments from US Federal Reserve (Fed) chair Jerome Powell. Robust economic data and positive company updates boosted European shares. Across Asia Pacific markets, Japan fared well, as upward earnings revisions offset worries about increasing domestic Covid-19 cases. Australia also ended higher as healthcare, technology and financial names drove gains in the first half of the month. But gains were capped as key states, New South Wales and Victoria, entered hard lockdowns to contain rising coronavirus cases. Emerging market stocks advanced too, led by India. However, Chinese shares were subdued due to slower economic growth and Beijing's continued regulatory clampdown.

Conversely, global bonds delivered negative total return on concerns about the impending withdrawal of central bank support. Fed chair Powell signalled that the US central bank could begin reducing its monthly bond purchases this year, but assured that it would not start raising interest rates too quickly thereafter. The 10-year US Treasury yield increased by 8 basis points to reach 1.31% at the end of August. In corporate bonds, improved risk sentiment helped high yield to outpace investment grade. Meanwhile, commodity prices finished the month lower, with falls in energy and most metals.

Portfolio Review

The fund returned 1.85% (gross of fees) and 1.78% (net of fees) in August. The exposure to equities, particularly Australian and US stocks, contributed the most. The allocation to fixed income and infrastructure boosted portfolio returns as well. Over the year to date, the fund has risen by 8.72% (gross of fees), despite a volatile market environment.

In August, we pared our exposure to broad global equities and recycled the proceeds into global healthcare and metals mining stocks. We believe these sectors stand to benefit from structural tailwinds of the long-lasting impact of Covid-19 and the increasing push towards green energy.

We also raised our exposure to China bonds, as the central bank seems to be turning more dovish amid signs of slowing mainland growth. Elsewhere within fixed income, we reduced duration in developed markets on the back of healthy US jobs data. We took a 5% short position on US 10-year Treasury futures, which provides a hedge against the risk of rising interest rates.

Outlook

Looking forward, our base case scenario remains for above-trend global growth for the rest of year, driven by vaccine rollouts and accommodative fiscal and monetary settings. Although some central banks have started to consider, or implement, tapering of quantitative easing measures, this does not reflect a tightening of monetary policy yet, in our view. We retain a pro-equity stance, supported by expectations for solid earnings growth. Within equities, we believe the main driver of performance will be improving fundamentals, which are unlikely to be threatened by a temporary run-up in inflation or gradual unwinding of monetary accommodation. Within fixed income, valuations for most sovereign bonds or other high-quality corporate bonds remain less supportive. Therefore, we continue to hold larger allocations in leveraged loans, high-yield bonds and emerging market debt.

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.

Investment strategy

The Fund will apply dynamic asset allocation to a diversified portfolio of traditional and alternative assets, without reference to a benchmark. The Fund may shift its investments quickly and significantly, based on valuations and expected returns, and may completely divest from a particular asset class.

Fund volatility will be controlled through the use of dynamic asset allocation and effective diversification of assets.

Investment objective

To achieve a real return equivalent to 5% per annum above inflation (before fees) over a full market cycle (generally 3 to 5 years).

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