

# Aberdeen Standard Multi-Asset Real Return Fund



30 September 2021

## Market Review

Global risk assets slid in September as investors became fearful of rising interest rates and accelerating inflation. The economic unease sparked selloffs across equity markets worldwide. In Asia, worries about contagion risks arising from the potential default of troubled Chinese property group Evergrande further weighed on sentiment.

Across stock markets, US companies were hit hard amid rising bond yields and softening consumer sentiment. Europe pulled back as investors digested an unclear outcome in Germany's general election. The centre-left Social Democratic Party emerged ahead of outgoing chancellor Angela Merkel's CDU-CSU coalition, but the low possibility of an all-left government calmed some of the jitters. Australian stocks were weak too, due to a more muted growth outlook and slumping iron ore prices. Japanese equities bucked the trend, however, ending higher as the country welcomed a new prime minister. Meanwhile, emerging markets lagged, driven largely by the selloff in China.

In fixed income, hawkish comments from the US Federal Reserve, suggesting that tightening could happen sooner than expected, lifted bond yields. Yet, volatility persisted as the authorities reaffirmed that inflation could be transitory. Global government and corporate bonds delivered negative total return as the 10-year US Treasury yield increased by 17.7 basis points to 1.49%. Separately, oil prices climbed above US\$80 a barrel for the first time in three years on rising demand and supply disruptions in the Gulf of Mexico.

## Portfolio Review

In September, the fund fell by 1.51% (gross of fees) and 1.58% (net of fees). The portfolio's exposure to equities, particularly US stocks, and fixed income, notably Asian high yield bonds, was negative. That said, the fund has still advanced by 7.08% (gross of fees) over the year to date, despite a volatile market environment.

During the month, we implemented a

relative value trade. We shorted Korean equities in view of the KOSPI Index's muted profit outlook, while taking a long position in broad global equities.

In view of potential volatility in equity markets, we bought calls on the VIX Index, funded out of short S&P500 Index (SPX) puts, to provide cost-efficient protection. We consider this a strategic, rather than tactical, move to hedge against a major selloff in US stocks. In such a situation, gains from the long VIX calls will more than offset losses from short SPX puts. The entry positions on both contracts are sized so that the net cost is close to zero.

Meanwhile, near the month-end, we added to US equities via index futures on weakness. US stocks had reacted negatively to rising bond yields, the potential debt ceiling debacle and rising inflation. In our assessment, none of these issues are likely to derail the robust fundamentals of US stocks on a sustained basis. We think US equities may return to its uptrend once bond yields stabilise, similar to what happened in the first half of 2021.

On duration and credit, we moderately reduced high-yield credit and increased China duration. We believe China bonds could provide some downside protection as the mainland economy moderates.

## Outlook

Looking forward, our base case scenario remains for above-trend global growth for the rest of year and beyond, driven by easing lockdown measures over the coming months. While inflation is an inevitable development at this juncture of the cycle due to supply constraints, we are watching for signs of growth erosion if inflation proves to more durable than expected. We are also monitoring developments on the Chinese policy front, given that the property sector is now a source of concern for the mainland's economic prospects.

We retain a pro-equity stance, as we believe the main driver of performance will be improving fundamentals. Moreover, we think this is unlikely to be threatened by a

## 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).

temporary run-up in inflation or gradual tapering of quantitative easing. Within fixed income, valuations for sovereign bonds have moderated and we are looking for opportunities to reduce our short positions. Elsewhere, our exposure to leveraged loans, developed market high yield bonds and hard-currency emerging market debt have been fairly resilient. We continue to look for signs of potential contagion from Asian or Chinese credit markets. However, we would look to add to Asian high yield if there is strong support from Beijing.

*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.*

**Contact us**  
Telephone:  
1800 636 888 or +61 2 9950 2853 if  
calling from outside Australia  
Email: [client.service.aust@abrdn.com](mailto:client.service.aust@abrdn.com)

[abrdn.com.au](http://abrdn.com.au)

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