

Aberdeen Standard Multi-Asset Real Return Fund



31 October 2021

Market Review

Returns of global risk assets diverged in October, with stocks again outperforming bonds. Equities rebounded from the previous month's losses, thanks to upbeat September-quarter earnings updates. However, bond yields continued to tick upwards on fears about a further withdrawal of central bank support amid growing inflation risks.

Most global share markets ended higher. The US was among the best performers on the back of a bright start to the results season. Notably, several major financial institutions profits surpassed forecasts, though some tech majors, including Amazon and Apple, fell short of expectations. Asia fared well too. Notably, Chinese stocks proved resilient on solid corporate earnings, while receding regulatory worries propelled internet and e-commerce names. In contrast, Australia was flat as positive sentiment towards easing lockdowns was counterweighed by a surge in bond yields. Japan declined, with observers dubbing the pullback a "Kishida shock" due to investors' concerns about the new prime minister's future policies. Nonetheless, the incumbent Liberal Democratic Party comfortably retained power in the general election.

In fixed income, shorter-maturity bonds outperformed longer-dated issues amid expectations that policymakers will soon start to normalise ultra-loose policies. Minutes from the Federal Reserve indicated that tapering could begin this year, while US inflation hit a 30-year high in September. Global corporate bonds fell, but outperformed government bonds. In Asia, local-currency yields moved higher, in line with US Treasury yields, except for Indonesia. Bond yields there fell on positive risk sentiment as the Covid-19 situation in the country stabilised. The Asian credit market weakened further due to the sustained sell-off in China high-yield property and rising defaults from Chinese developers. Meanwhile, commodity prices continued their ascent, with Brent crude nearing a three-year high in the middle of the month.

Portfolio Review

In October, the fund rose by 1.87% in gross terms, and rose by 1.8% net of fees. The exposure to equities, particularly US stocks, and infrastructure boosted returns, though our fixed income positioning detracted. Over the year to date, the fund remains up by 9.09% (gross of fees), despite the volatile market environment.

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.

Earlier in the month, we also raised our exposure to equities, spread across broad global stocks, US energy and Japanese shares. Despite recent concerns about stagflation, we believe global growth could moderate but still remains healthy and sticky, while inflation is peaking. With the withdrawal of monetary policy support likely to be benign, we believe stocks could rise further amid a sustained cyclical recovery.

Outlook

Looking forward, global economic growth is still robust, but appears to be moderating and increasingly divergent. Inflation is expected to remain somewhat elevated as supply chains and reopenings catalyse at least temporary price distortions, with the potential for it to become persistent in certain countries. Although some central banks have started to consider, or implement, tapering of quantitative easing measures, this does not reflect a broad tightening of monetary policy yet, in our view. We are monitoring the surge in energy prices, driven by green policies and supply constraints due to the pandemic and geopolitical developments. While markets will reprice for higher energy costs, we believe that stock markets can continue to function well even at higher oil prices. We

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).

remain optimistic on equities, especially with recent waves of Covid-19, triggered by the delta strain, eases.

The relative outlook for each region and style remains highly uncertain, however, and future trajectory of performance will depend largely on yield movements. In the near term, a combination of reopening, higher yields and inflation, as well as rising oil prices, should support a rotation towards cyclical. But as concerns over China's growth and its property sector recede, we see value in Asia stocks, with earnings growth there outpacing other regions. Should there be a more significant pullback than is unwarranted, we would likely take advantage to increase the portfolio's cyclical exposures. This is informed by our view that energy issues will intensify and that inflation and bond yields are likely to increase further. Also, the broad market remains underweight towards value and cyclical stocks. We continue to hold a high conviction towards equities.

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.

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