Aberdeen Standard Multi-Asset Real Return Fund

Aberdeen Standard Investments

30 April 2021

Market Review

April was another good month for global equities, while bond markets stabilised after several months of rising yields. Positive economic figures from the US and China, fiscal policy measures and reassuring comments from global central banks supported sentiment. However, ongoing tensions between Beijing and Washington capped gains, with the US and Japan projecting unity against China.

In equity, developed markets again outpaced their emerging-market peers. The US remained the best-performing market as president Joe Biden unveiled a US$1.8 trillion plan to support families by spending more on childcare, paid leave and education. Europe and UK also clocked good gains, while commodity price strength and upbeat corporate earnings buoyed Australia. However, fears over rising coronavirus infections and its slow vaccine rollout weighed on Japan. In emerging markets, Chinese stocks rose, albeit less than other markets due to concerns about US-China tensions. In contrast, Indian stocks and the rupee fell. The country battled surging infection rates amid a lack of vaccines and a struggling healthcare system. Chile was the worst-performing emerging country, suffering from a lack of confidence in president Pinera's leadership.

Across fixed income, the sell-off in developed government bonds paused. US and UK government bond prices rose, although European bonds pulled back. In particular, US Treasury yields stabilised, ending mostly lower from a month ago. Emerging-market debt increased, while developing governments raised a record US$191 billion in Eurobonds in the first quarter. Corporate bonds also performed well, with both high yield and investment grade rising over April. Within Asia, local-currency government bonds outpaced US-dollar credit, with both ending the month higher. The unwinding of large short positioning in US Treasuries facilitated a rally in local-currency bonds. Renewed waves of Covid-19 cases also threatened to derail the region's economic recovery, suggesting that policies may need to remain supportive for longer. Local-currency bond yields fell across the region as a result, except for South Korea, which rose on good economic growth accompanied with expectations of further government stimulus.

Portfolio Review

The fund returned 2.51% (gross of fees) and 2.44% (net of fees) in April.

Most assets contributed positively, particularly the fund's allocation to equities. Our fixed income exposure, including frontier markets bonds and global high yield bonds, alongside other non-traditional asset classes, such as infrastructure and litigation financing, also added value.

In April, we tweaked our equity exposure. Notably, we rotated away from Future Mobility ETF, given its high exposure to technology and growth stocks. We also trimmed our exposure to broad global equities, taking some profits on developed market stocks after their robust outperformance in the year to date. Conversely, we raised our exposure to US financials, which offered more attractive valuations and are likely to benefit from the next leg of the economic recovery and rising interest rates. We also started to add back to China A Share equities, given the market's underperformance.

In fixed income, we added to our position in Asian high-yield bonds, which appeared attractively priced relative to US credit. Meanwhile, we implemented a relative value trade using currency forwards, reducing New Taiwan dollar (TWD) while adding to Indian rupee (INR). We think that positive news surrounding the territory has already been priced into its the recent TWD rally. We expect it to trade sideways, and potentially return some gains to the US dollar, in the near term. On the flipside, much of the negatives surrounding India, including surging Covid-19 cases, vaccine supply and hospital capacity concerns, alongside the unwinding of carry trades, have been reflected in the currency's selloff. Therefore, valuation and carry look appealing.

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.

Elsewhere, we continued to rotate from the Prytania to the TwentyFour asset-backed security fund. Our conviction in Prytania, relative to TwentyFour, had fallen. This reflected weaker relative and absolute performance from the Prytania Fund, alongside lower confidence about returns going forward.

Outlook

Looking forward, we are sanguine about global economic outlook, given the key signposts of vaccination, policy support, and bullish corporate fundamentals. That said, we are cautious about taking on more risk, given stretched valuations and elevated investor positioning in riskier assets, especially US growth stocks. However, valuation and positioning are highly uneven across market segments. We continue to favour exposure to cyclical industries, such as industrials, miners, and financials. Meanwhile, we continue to keep duration low and are overweight high-carry fixed income, such as high yield, loans and emerging market debt, funded out of investment grade bonds. We continue to closely watch for signs of growth moderation, rising inflation, shifts in central bank stances, and investor complacency.

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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