abrdn Global Absolute Return Strategies Fund

abrdn

30 June 2023

Activity

We made several changes to position for our central case scenario of an economic slowdown, while also increasing diversification to protect against alternative outcomes.

In equities, we reduced our short US equity position and added exposure to equity upside through our global equity convexity strategy. We also introduced a systematic equity strategy to gain exposure to sectors with a relative value bias which exhibit strong alpha generative capabilities.

In fixed income, we exited our Australian yield curve flattener position and added a Japanese flattener, which aims to benefit from the expectation that the Bank of Japan will widen its yield curve control bands to ease pressure on the bond market and tackle inflationary pressures. We also added exposure to Mexican interest rates as we believe rates have peaked in Mexico, where inflation is falling, unemployment is rising and growth expectations are deteriorating.

In foreign exchange, we increased our exposure to the US dollar against interest rate sensitive economies to protect against further US interest rate hikes. We added exposure to the Japanese yen versus the Taiwanese dollar as we expected the yen to benefit from its safe haven status as global risk sentiment deteriorates. Meanwhile, concerns over Taiwan's trade balance and the cyclicality of equities should negatively affect the Taiwanese dollar. At the end of the quarter, we reallocated the Japanese yen position to the Indian rupee as weakness in the yen persisted. We also favour exposure to the more idiosyncratic economic environment that is expected in India. Finally, we reduced our short British pound exposure as the Bank of England is expected to continue raising interest rates which helps to support the currency (in the short term at least).

We added several positions to benefit from heightened volatility across stocks markets and interest rates. In commodities, we added exposure to gold, which acts as an inflation hedge and diversifier in times of monetary stress.

Portfolio positioning and outlook

It was a mixed quarter for financial markets. Technology stocks were a notable outperformer due to the growing excitement around artificial intelligence but concerns over stubborn inflation and higher interest rates caused sovereign bonds to sell off.

Gilts fell to their lowest level since the mini-budget turmoil last October as UK inflation surprised to the upside and the Bank of England unexpectedly raised interest rates by 50 basis points in June. The US dollar also strengthened on the back of rising interest rate expectations in the US. The monetary tightening cycle is generally further advanced in emerging than developed markets, which is evident in Brazil where inflation continues to fall and the market expects its central bank to start cutting rates soon.

The resilience of economic activity and the strength of underlying inflation imply that further monetary tightening is likely, despite economic and financial market stress following concerns with the banking system. We think a US recession is 'necessary' to bring inflation back to target consistent rates. Similarly, in Europe, economic data has been resilient, while core inflation pressures show little sign of moderating. The European Central Bank will probably remain in hiking mode, and this should eventually result in a recession. Given this backdrop, while we see compelling risk-adjusted return prospects in some traditional asset classes, we remain cautious on relying on them alone to generate returns. Many alternative asset classes are less affected by this turn in the cycle.

Risk factors you should consider before investing:

a. The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than they put in. The fund makes extensive use of derivatives for investment purposes. Past Performance is not a guide to future performance.

b. The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

c. The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

d. The fund invests in equities and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

e. The fund may invest in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

f. The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives will result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund makes extensive use of derivatives.

g. The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

Cumulative and Annualised performance as at 30/06/2023

	3 Months %	1 Year %	3 Years (p.a.) %	5 Years (p.a.) %
Standard Life Global Absolute Return Strategies Fund	-3.7	-10.8	-5.3	-2.8
ESTR from 1/1/22, prior 6 Month EURIBOR	0.7	1.6	0.2	0.0

Discrete annual performance year to 30/06

	2023	2022	2021	2020	2019
Standard Life Global Absolute Return Strategies Fund	-10.8	-9.1	4.8	0.7	1.2
ESTR from 1/1/22, prior 6 Month EURIBOR + 5% p.a.	1.6	-0.6	-0.5	-0.3	-0.2

Fund performance has been calculated net of Annual Management Charge.
Source: abrdn

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. This investment may be affected by changes in currency exchange rates.

Performance

It was a mixed quarter for financial markets. Technology stocks were a notable outperformer due to the growing excitement around artificial intelligence but concerns over stubborn inflation and higher interest rates caused sovereign bonds to sell off.

Gilts fell to their lowest level since the mini-budget turmoil last October as UK inflation surprised to the upside and the Bank of England unexpectedly raised interest rates by 50 basis points in June. This hit our US versus UK interest rates relative value strategy. Conversely, our short high yield position ended the quarter among the top performers.

The US dollar strengthened on the back of rising interest rate expectations in the US. This benefitted our US dollar positions, particularly against the South African rand and our favoured foreign exchange carry strategy. The latter also benefitted from strength in the Brazilian real and Mexican peso.

The monetary tightening cycle is generally further advanced in emerging than developed markets, which is evident in Brazil where inflation continues to fall and the market expects its central bank to start cutting rates soon. The decline in interest rate expectations benefitted our Brazilian government bond position, another consistent top contributor this quarter.

Lastly, as global equities advanced for a third consecutive quarter, our defensive equity relative value strategies and short equity positions underperformed.