



abrDN Target Return MPS

Quarterly commentary

Q3 2024

Investors should remember that the value of investments and the income from them can go down as well as up and that past performance is not a guarantee of future returns.

This report is only for use by a financial adviser or a client who has received advice on investing in this managed portfolio service. It is not for use by non-advised investors or any other third party. For full important information and key risks, please refer to the end of this document.

Objective

The abrDN Target Return Managed Portfolio Service (MPS) is designed to target a return of SONIA +1%, +2%, 3%, 3.5% and 4% (after assumed fees and charges of 2%) through an actively managed discretionary portfolio.

Discrete annual returns – year to 30/09

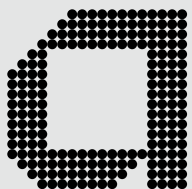
	2020	2021	2022	2023	2024
abrDN Target Return MPS 1	1.88%	1.52%	-8.01%	0.82%	9.60%
SONIA +1%	1.36%	1.05%	1.73%	5.00%	6.23%
abrDN Target Return MPS 2	1.77%	3.07%	-8.80%	0.39%	11.06%
SONIA +2%	2.36%	2.05%	2.74%	6.03%	7.29%
abrDN Target Return MPS 3	1.91%	4.68%	-9.50%	-0.21%	12.53%
SONIA +3%	3.37%	3.05%	3.74%	7.07%	8.34%
abrDN Target Return MPS 4	2.18%	6.16%	-9.06%	0.47%	13.26%
SONIA +3.5%	3.87%	3.55%	4.25%	7.59%	8.87%
abrDN Target Return MPS 5	2.28%	7.78%	-9.77%	1.38%	13.59%
SONIA +4%	4.37%	4.05%	4.75%	8.10%	9.40%

Portfolio performance is based on abrDN Target Return MPS hosted on the abrDN Wrap platform. Performance figures are net of the abrDN Portfolio Solutions Ltd management fee and underlying funds OCF. Source: abrDN, Financial Express. As at 30.09.2024. ARC Private Client Indices are based on actual client portfolio returns provided by various investment management companies. These portfolio returns are allocated to one of four categories based on the volatility of their returns relative to world equities, and an average return is calculated for each category. Grouping portfolios by their volatility differs from the traditional approach, which compares portfolios which have similar asset allocations. Instead, investment managers may use whatever asset allocation they consider appropriate to achieve the desired levels of return and volatility.

Key points

- Global equity markets ended the quarter higher. With continued disinflation and modest economic growth, investors are factoring in further interest rate cuts in most regions later in 2024.
- However, with inflationary pressures still present, the world's major central banks have maintained a data-dependent stance on monetary policy.
- Some weaker US economic data, particularly in the country's labour market and manufacturing sector, has raised concerns about a recession. Moreover, investors continued to be concerned about the outlook for the Chinese economy – especially the country's property sector – and the implications for global economic growth. The ongoing wars in Ukraine and the Middle East remain other key risks.
- Government bond markets ended higher, supported by the slowdown in inflation and heightened concerns about economic growth – leading to most major central banks now cutting rates – as well as ongoing geopolitical risks. Meanwhile, US corporate bonds also performed well. Spreads on both investment grade and, particularly, high yield instruments tightened over the quarter, as investor risk appetite remained robust. This was despite marked volatility in late July and early August due to fears of a US recession.





abrdn Target Return MPS

Quarterly commentary

Q3 2024

Market commentary

Orbiting the Earth at an average distance of 384,400 km (238,900 miles) but with a mass of only 1.2% compared to our planet, it can be a lonely job being the Moon (or Luna if we're being scientific). So, thank goodness that September brought the announcement that a small asteroid will be captured by Earth's gravitational pull and temporarily become a second 'mini-moon'. Sadly, this new second moon will be too small and dim to see (unless you have a professional telescope) and will only be orbiting the Earth for a few months.

For millennia, the human race has watched the Moon rise steadily over the horizon each night, with it serving as a source of inspiration for cosmography, mythology, religion, art, chronology and cosmology. However, it was the stock market that looked to the heavens for inspiration this quarter, rising over the period as various central banks began their rate-cutting cycles with a big bang.

In July, there was a widely expected victory for the Labour Party in the general election. Coupled with expectations that the Bank of England (BoE) would cut rates by the beginning of August, it was the more domestically orientated mid-cap index that outperformed its blue-chip peer, with both rising as foreign investors began to reexamine the case for UK equities. Indeed, during the first month of the quarter, global markets saw a broad rise, with many investors expecting rate cuts to come on the back of softer inflation data and more dovish central bank rhetoric. Core inflation for the US also came in at 3.3%, its lowest level in over three years, encouraging investors to gravitate towards US Treasuries during the summer months, pushing the 10-year yield to below 4% by quarter-end.

However, only the Bank of Canada saw fit to cut its borrowing costs by 25 basis points during July while the Bank of Japan (BoJ) hiked its rates to combat rising inflation, strengthening the yen in the process.

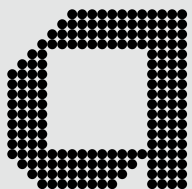
Across the Channel, however, the story was quite different. While European stocks saw decent returns for July, with gains in Germany, Italy, Spain and Switzerland, French stocks fell after the surprise first-round election win from the right-wing National Rally Party. However, French stocks recovered, as

the party's vote faltered during the second round of elections. Just as all seemed well heading into August, global markets cratered, much like an asteroid crashing downwards into the Moon's surface. This was partially sparked by a weak labour market reading from the US, which showed a higher-than-anticipated unemployment level, triggering the Sahm Rule – a heuristic measurement for determining when an economy has entered a recession. With the poor data weakening the US dollar further against an ever-strengthening yen (which was rising from speculation that the BoJ would raise rates again soon), the Japanese market fell by an unprecedented 12% in a single day. Such frenzied selling also affected other markets, in particular the well-performing US tech sector. Markets rebounded sharply the following day, with the Japanese market closing up 10.2%, its largest ever single-day percentage gain.

A widely expected rate cut from Threadneedle Street (the BoE's headquarters) aided domestic markets during August, as a group of three committee members, led by the Governor of the BoE Andrew Bailey, switched their vote from hold to cut, making it a 5-4 notion in favour. Striking a more cautious tone and by no means paving the way for subsequent quick cuts, Bailey commented "We need to make sure inflation stays low and be careful not to cut interest rates too quickly or by too much" in the accompanying press conference.

With the phases of the Moon driving our ocean currents, the final parts of the quarter showed the tide was turning against higher rates, with the US Federal Reserve following the lead of many of its central bank peers. Although a rate cut was fully priced in by financial markets, the debate as to whether it would be 25 basis points (bps) or a more significant 50 bps reduction had raged on, with investors sat on the fence right up until the evening of the announcement. Believing a 50 bps cut was pertinent, the central bank's Chair Jay Powell remarked "The logic of this both from an economic standpoint and from a risk management standpoint was clear." Much like the BoE, the Fed were quick to explain that rate cuts going forward would be spaced appropriately and was quick to emphasise that their outsized 50 bps reduction would be a once-in-a-blue-moon event.





abr dn Target Return MPS

Quarterly commentary

Q3 2024

The final week of the quarter was characterised by events in Asia, as China's central bank unveiled its largest stimulus package since the pandemic, far eclipsing most investor expectations. Aiming to pull the economy out of its deflationary orbit and back towards the government's growth target, the People's Bank of China (PBoC) predominantly targeted China's faltering property market, including a 50 bps reduction on average interest rates for existing mortgages and a cut in the minimum downpayment requirement to 15% on all types of homes, among many other measures. The moves certainly caught investors' imagination, causing the Chinese benchmark to rocket higher as we reached October.

Adding to the interstellar feel of the quarter, sterling also shot into the stratosphere during the period. How apt then is the word 'sterling', derived from the Old English *steorra* for 'star' with the added suffix *-ling* to form 'little star' for the coins in your pocket? Sterling had certainly been a shooting star during September, breaking through \$1.34 towards the end of the month, its highest level since February 2022. Stickier-than-anticipated inflation, a central bank less willing to cut interest rates than its peers and a more stable picture in Westminster all led to the pound's rise over recent months.

Investment strategies

Target return mandates were positive across the range over the third quarter of 2024, with lower-risk mandates delivering returns ahead of their higher-risk peers.

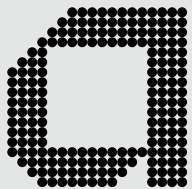
Within equity markets, there was a varied set of outcomes, and the journey that markets followed over the period was even more diverse. In local currency terms, most major exchanges ended the quarter in positive territory, but it was anything but an easy ride for investors. The sell-off in markets in early August (largely triggered by weaker US macroeconomic data) pushed most markets into the red. However, the Japanese market fell by more than 20% over the first three trading days of the month, before bouncing back to end the month only 2.9% lower. It is thought that this extreme move was driven by algorithmic trading in combination with a rapid unwinding of the Japanese yen carry trade, but it was a highly unusual event. Similarly, the

liquidity rally that we witnessed in Chinese equities in the final week of the quarter was also exceptional. A continued weak macro environment led the Chinese authorities to loosen monetary policy, which was specifically designed to support the ailing property market, while also implementing policy to support the equity markets. This led to a more than 25% rally in the onshore Chinese market in the final five trading days of the quarter. There was also some considerable currency moves over the quarter that brought mixed fortunes for sterling investors. The strength of the Japanese yen (the Bank of Japan being the one major developed world central bank that is raising rates) was a positive, as the translation effect turned a negative local currency return to a positive for sterling-based investors. However, the pound strengthened against most of the other G10 currencies and notably versus the US dollar (4.2%). This was, therefore, more challenging for US and European equity returns, which were flat to marginally negative from a sterling perspective (-0.1% and 0.1%, respectively). The returns from Asia excluding Japan (4.2%) and emerging markets (2.7%) were also significantly curtailed due to this sterling strength.

From a fixed interest perspective, the journey again was quite volatile but the outcomes were nearly all positive. The fall in developed world government bond yields was a big driver of positive returns across portfolios (especially at the lower risk levels). This was led by the all-maturity and short-duration broader global government bond markets. The US Treasury strategy that we hold within mandates performed well at a local currency level, but the weakness in the US dollar meant that these returns when translated into sterling proved to be negative. UK government bonds also performed strongly, but they gave up some of their positive returns towards the end of the quarter. This was largely due to the rhetoric around the more precarious state of the UK's finances, which have been unearthed following the Labour Party's landslide win in the UK general election. Investment grade bonds benefited from lower rates and a mild tightening in credit spreads. Global high yield bonds were strong contributors to returns, with spread contraction again being a key driver of returns.

Alternatives were a stand-out performer over the quarter. The expectation of falling interest rates has been a real





abrdn Target Return MPS

Quarterly commentary

Q3 2024

positive contributor to both global real estate investment trusts (REITs) and infrastructure assets, with returns in sterling up 9.7% and 7.3%, respectively.

Portfolio Activity

We made some changes to our UK equity fund selection during August, increasing our exposure to UK smaller companies. We sold the Artemis Income Fund, reduced the JP Morgan UK Equity Core Fund, increased our exposure to the Man GLG Undervalued Assets Fund and introduced a new position in the Fidelity UK Smaller Companies Fund.

We continue to think small-cap UK equities look attractive from a valuation perspective relative to their history. We are also comfortable with increasing exposure to domestically-focused companies in the UK. There are signs sentiment for UK assets is improving and domestically-focused companies will benefit if this continues.

The Fidelity UK Smaller Companies Fund has been managed by Jonathan Winton for over 10 years. Jonathan has built up a strong track record of consistently outperforming the small-cap benchmark. He has done this by implementing his contrarian, value-based philosophy. The fund complements other UK small-cap funds in our portfolios by the simple fact it fishes in different areas of the market – as it is a value fund. Its contrarian investment philosophy means it invests in different stocks to the other funds we hold, meaning the addition of the Fidelity UK Smaller Companies Fund is adding genuine diversification. Our exposure to the Fidelity UK Smaller Companies Fund is part of a blend of other exposures to multiple small-cap funds in the UK, which ensures our overall exposure is well diversified and reduces liquidity risk.

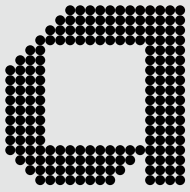
Outlook

With record highs being hit in several markets during the third quarter, amid resilient economic data in the face of falling inflation, most major asset classes have achieved a positive return during the period. However, we are cognisant that the risks surrounding a recession in the US have risen during the quarter, arising from higher-than-expected unemployment figures, but we still point to a soft landing for markets as our central thesis.

Central bank action in lowering borrowing costs should continue throughout the rest of the year as inflation falls back towards target and wage growth cools. While this combination should be supportive of consumer sentiment and spending, wage growth will need to slow further before underlying inflationary pressures settle at a consistent rate, albeit not quite as rapidly as previously expected.

It now seems that – unlike what our Moon goes through regularly – the strengthening of the global economy could now be anything but a phase...





abrdn Target Return MPS

Quarterly commentary

Q3 2024

Important Information

This document is strictly for information purposes and should not be considered as an offer, investment recommendation or solicitation to deal in any of the investments mentioned herein. abrdn does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaim liability for errors or omissions in such information and materials. No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of abrdn. This factsheet does not provide individually tailored advice. It has been prepared without regard to individual financial circumstances and objectives of persons who receive it. We recommend that investors seek the advice of a financial adviser. The appropriateness of a particular portfolio will depend on an investor's individual circumstances and objectives.

Risks

All investments involve risk. The risks of some of the funds may be comparatively high. The risk descriptions at the end of this document correspond to the main risk factors for each fund within the model. "General Risks" mostly apply to all funds within the model. A fund could potentially be affected by risks beyond those listed described in this document, nor are these risk descriptions themselves intended as exhaustive. For full information and key risks, please refer to the end of this document.

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

Interest rate risk: 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.

Equity risk: The fund invests in equity 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.

Emerging Markets risk: The fund invests 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.

Derivatives risk: 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 may 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.

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

For more information visit abrdn.com

abrdn Portfolio Solutions Limited, registered in England (08948895) at 280 Bishopsgate, London, United Kingdom, EC2M 4AG.

abrdn Portfolio Solutions Limited is authorised and regulated by the Financial Conduct Authority.

0924 ©abrdn plc 2024. All rights reserved.

Aprimo ID: AA-270924-183631-5

abrdn.com

