abrdn Asia-Pacific Income Fund

Quarterly Commentary

Quarter ended July 31, 2024

Fund performance

The abrdn Asia-Pacific Income Fund returned 5.53%[1] on a net asset value (NAV) basis for the three-month period ended July 31, 2024, outperforming the 3.84% return of its blended benchmark.[2]

The investment portfolio outperformed its benchmark, with the overweight to U.S. dollar-denominated Asian bonds the principal driver of relative returns. Meanwhile, the overweight to the outperforming Indian local currency bond market contributed positively. On the other hand, the underweight to the Malaysian ringgit and Thai baht detracted value. With some underperformance experienced in Latin American currencies, the overweight exposure to the Brazilian and Mexican local currency markets detracted value.

On a NAV basis, the Fund outperformed its blended benchmark, benefitting from the positive contribution from the use of leverage. The strategic use of leverage is beneficial to the income generated by the Fund due to the positive interest-rate differential between the interest earned and the cost of leverage.[3]

Cumulative and annualised total return as of July 31, 2024 (%)

	NAV	Market Price
Since inception (p.a.)	6.76	6.60
10 Years (p.a.)	0.93	1.51
5 Years (p.a.)	(0.07)	1.78
3 Years (p.a.)	(3.21)	(3.34)
1 Year	6.39	15.27
Year to Date	2.55	10.97
3 Months	5.58	15.46
1 month	2.37	5.51

Past performance is no guarantee of future results. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted. NAV return data includes investment management fees, custodial charges, bank loan expenses and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.

The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

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[2] The Fund's blended benchmark comprises 40% iBoxx Asian Local Bond Index (unhedged in US dollars), 35% J.P. Morgan Asia Credit Diversified Index, 15% J.P. Morgan GBI Emerging Market Global Diversified and 10% Bloomberg Ausbond Composite Index.
The J.P. Morgan Asia Credit Diversified Index tracks the performance of actively traded U.S.-dollar denominated debt instruments in the Asia ex-Japan region.
The Bloomberg AusBond Composite Index tracks the performance of the Australian debt market.
The Markit iBoxx Asian USD Bond Index family ("iBoxx ADBI") tracks the performance of U.S. dollar-denominated bonds from Asian based issuers.
The J.P. Morgan GBI Emerging Market Global Diversified Index is a comprehensive global local emerging markets index comprising liquid, fixed-rate, domestic currency government bonds.
Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

[3] The investment portfolio performance is gross of fees and expenses and not subject to leverage. The NAV performance is net of fees and expenses and includes the impact of leverage. The benchmark performance is not subject to fees and expenses and is not subject to leverage.

Market review

U.S. Treasury yields rallied aggressively to leave the 10-year yield 65 basis points (bps) lower at 4.03% at the end of the period. The July Federal Reserve (Fed) meeting was dovish as policymakers kept interest rates on hold and hinted that they would cut rates in September. The Fed statement reflected progress on inflation, the rebalancing of the labor market, and more balanced risks to the economy. The annual U.S. inflation rate fell for a third month in a row to 3% in June. This was below expectations and the slowest inflation rate in a year. The July non-farm payroll printed below expectations at 114,000, while the unemployment rate climbed to 4.3%. The Brent crude oil price fell by 8.1% to $80.70 per barrel over the period.

Asian bond markets performed strongly alongside the rally in U.S. Treasuries, with Malaysia and Thailand attracting notable inflows. Hong Kong led performance as its 10-year yield fell by 78bps, while benchmark yields also fell steeply in the Philippines (-63bps), Singapore (57bps), and South Korea (-59bps). Ten-year yields fell more moderately in India (-26bps), Indonesia (-33bps), Malaysia (-26bps), China (-17bps), and Thailand (-18bps). Economic activity levels across Asia have been mixed while inflation pressures remain contained. Price pressures have been sticky in Singapore and South Korea, although the latest prints show inflation trending lower in both economies.

The market has priced in rate cuts by the Bank of Korea. Policymakers turned more dovish at their latest meeting although Governor Rhee Chang-yong cautioned that expectations for rate cuts seem "somewhat excessive". China lowered interest rates in July as its economy continues to slow amid contracting activity. The repo and loan prime rates were lowered by 10bps and the medium-term lending facility by 20bps. Five major state-owned banks cut their deposit rates by 10-20bps. Central banks elsewhere in Asia held their monetary policy steady over the period, although since the quarter-end, the central bank of the Philippines eased monetary policy by 25bps.

The Malaysian ringgit and Thai baht both strengthened by 3.8% in a strong period for Asian currencies, with the Singapore dollar gaining 2.2%. The South Korean won rose by 0.8%, China's offshore yuan by 0.4%, and the Hong Kong dollar by 0.2%. The Indonesian rupiah was flat over the period while the Indian rupee fell by 0.4% and the Philippine peso fell by 1.0%. The U.S. dollar weakened amid growing expectations of Fed rate cuts, with the DXY dollar index falling by 2%.

Asian credit rallied as the J.P. Morgan Asia Credit Diversified Index returned 3.97% and the index spread tightened by 6bps. High-yield debt (+4.9%) outperformed investment grade (+3.8%). All sectors delivered positive returns, with real estate (+11.0%) the top performer, while metals & mining (+6.7%) and oil & gas (+4.5%) also performed strongly. All countries delivered positive returns apart from Sri Lanka, which was volatile on reports of its restructuring progress.

In hard currency emerging market bond markets, the lower U.S. Treasury yields were the key driver of performance, while some idiosyncratic stories contributed positively. Ukrainian (+20.7%) sovereign debt was the top performer as it progressed debt restructuring talks. Chile (+6.1%) benefited from a copper price rally that saw prices surge over 20% from March levels, while Venezuela (-8.1%) underperformed following President Nicolas Maduro's controversial re-election. Emerging market local currency bonds underperformed both their hard currency counterparts and Asian local currency markets as Latin American currencies came under significant weakening pressure. The J.P. Morgan GBI-EM Global Diversified Index (unhedged in U.S. dollar terms) returned 2.80%. South Africa (+14.2%) was the standout performer after its general election led to the formation of a more market-friendly government. Moody's upgraded Turkey (+5.2%) following improvements in governance and a return to orthodox monetary policy.

Outlook

Central banks in Asia have shifted to a neutral or dovish stance but may be wary of easing too quickly given uncertainty over the path of the Fed's easing cycle. As the Fed edges closer to easing monetary policy, the period of U.S. dollar exceptionalism may begin to come under pressure. Asian credit fundamentals are improving in investment grade and stabilizing in high yield. Default rates in Asia have started to taper off. Negative net supply and high overall yields remain tailwinds for spreads, albeit we recognize that current spreads leave little buffer for risks. We continue to seek diversity in our income opportunities.

Important Information

Past performance is no guarantee of future results.

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Company's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the Company's portfolio. The net asset value (NAV) is the value of an entity's assets less the value of its liabilities. The market price is the current price at which an asset can be bought or sold. There is no assurance that the Company will achieve its investment objective. Past performance does not guarantee future results.

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International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods; these risks are generally heightened for EM investments.

Concentrating investments in the Asia-Pacific region subjects the Company to more volatility and greater risk of loss than geographically diverse funds.

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