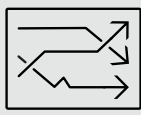


# abrdn Asia-Pacific Income Fund VCC

## Quarterly Commentary

Quarter ended January 31, 2025

### Fund performance



The investment portfolio marginally outperformed its benchmark, though the overweight exposure to Indonesian local-currency bonds and the underweight exposure to the lower-yielding Asian bond markets detracted from performance. This was offset by the positive contribution from the overweight exposure to the Indian local-currency market relative to the benchmark. The underweight to the Australian market, but with a preference to own non-sovereign bonds, added value.<sup>1</sup>

The Fund's NAV increased by 3.74%, outperforming its blended benchmark, benefitting from the positive contribution from the use of leverage. Additionally, the Fund benefitted from a positive mark-to-market impact of interest rate swaps used to hedge the cost 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 increased earned and the cost of leverage.

### Economic & market overview

The US yield curve bear steepened over the period under review, with the 2-year yield little changed at 4.22% (+3 basis points [bps]) while those on 10- and 30-year instruments hit their highest levels since November 2023, before settling at 4.51% (+22 bps) and 4.79% (+31 bps), respectively. These moves were largely a reaction to Donald Trump winning the US election, with his pro-growth agenda likely to add further

inflationary pressure, while economic data over the period continued to illustrate a resilient US economy. This prompted a more hawkish rhetoric from the US Federal Reserve (Fed) when it announced its final rate reduction of 2024 in December, with just two further rate cuts indicated across 2025. That said, the latest inflation data prompted yields to retreat from their recent highs, with consumer price inflation coming in line with expectations at 2.9% year on year, largely driven by food and energy prices, and core inflation rising just 0.2% month on month. The Brent crude oil price rose by 4.0% over the month to \$75.70 a barrel.

### Cumulative and annualized total return as of January 31, 2025 (%)

	NAV	Market Price
10 Years (p.a.)	3.09	3.11
5 Years (p.a.)	2.31	4.61
3 Years (p.a.)	6.58	7.74
1 Year	13.84	18.16
Year to date	2.14	4.55
3 months	3.74	6.63
1 month	2.14	4.55

**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 quoted. NAV return data includes investment management fees, custodial charges 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.

<sup>1</sup>The Company's blended benchmark comprises 50% Markit iBoxx Asian Local Bond Index, 25% J.P. Morgan Asia Credit Diversified Index, 15% J.P. Morgan GBI Emerging Market Global Diversified Index and 10% Bloomberg Ausbond Composite Index.

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 Asia Credit Diversified Index tracks the performance of actively traded U.S.-dollar denominated debt instruments in the Asia ex-Japan region. The J.P. Morgan GBI Emerging Markets Global Diversified Index tracks the performance of liquid, fixed-rate, domestic-currency government bonds. The Bloomberg AusBond Composite Index tracks the performance of the Australian debt market. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

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.

For current holdings information, please visit [abrdn Asia-Pacific Income Fund VCC - Portfolio Holdings](#)



## Asian bonds

Asian bond markets performed strongly over the period under review, with 10-year yields falling across most countries in the region. China (-50 bps) led the gains amid its weaker growth environment, deflation and easing bias, while South Korea also performed strongly, largely due to the Bank of Korea's decision to cut rates again to 3%, accompanied by a dovish statement. Yields also fell in Malaysia (-17 bps), Thailand (-13 bps) and India (-9 bps). Conversely, Hong Kong underperformed significantly, with its 10-year yield rising 49 bps over the period, reflecting the moves in the US, while yields in the Philippines (+30 bps) and Indonesia (+22 bps) also rose over the period. Economic activity across Asia has been mixed, while inflation pressures remain contained. Price pressures have been sticky in Singapore and South Korea, although inflation is trending lower in both economies.

The political situation in South Korea was very much in focus as President Yoon was impeached, introducing an element of risk and prompting cautious bond market moves, as policy might need to adjust to address these concerns. Elsewhere, the People's Bank of China announced that it would stop buying China government bonds in open-market operations and cautioned investors against overinterpreting its stance on relaxed monetary policy.

## Asian currencies

As the Canadian economy was in the crosshairs of the new US administration's trade and border policies, the Canadian dollar weakened against the US dollar. As such, most Asian currencies strengthened against the Canadian dollar, with the Thai baht (+4.41%) and Hong Kong dollar (+3.90%) leading the gains. China's offshore yuan rose by 2.50%, while the Malaysian ringgit (2.07%), Singapore dollar (+1.34%), Indian rupee (+1.00%) and Indonesian rupiah (0.09%) also appreciated against the Canadian dollar over the period. Faced with its own domestic political issues, the South Korean won was the only currency to weaken against the Canadian dollar over the period (-1.22%).

## Asian credit

Asian credit spreads were relatively flat over the period as the JPMorgan Asian Diversified Credit Index returned 0.11% in US dollar terms, while the index spread tightened by 4 bps. High-yield (HY) debt (-0.61% in US dollar terms) underperformed investment grade (IG) (+0.61% in US dollar terms). Real estate (-7.91%) was the main detractor, while all other sectors were around +/-1% for the period. Sri Lanka (+7.06%) and Pakistan (+3.88%) were the standout performers, while all other countries were, again, around +/-1% for the period (all in US dollar terms).

## EM debt & currencies

Hard-currency emerging-market (EM) bonds were initially pressured by Trump's election victory and reduced expectations for interest-rate cuts in the US. However, performance in January was strong, led by HY, resulting in positive returns over the period under review. Africa and Latin America were the standout regions, with Asia underperforming, finishing flat over the period. Lebanon (+92.73%) was the top performer, owing to reduced geopolitical risks among its neighbours and the appointment of its first president in two years – the US-backed Joseph Aoun. Elsewhere, Argentina (+20.52%), Ecuador (+18.29%) and Venezuela (+19.95%) led performance in Latin America, while Ukraine (+19.59%) benefited from the possibility of Trump-led peace talks between itself and Russia. Local-currency EM bonds underperformed both their hard-currency counterparts and Asian local-currency markets. The JPMorgan GBI-EM Global Diversified Index (unhedged in US dollar terms) returned -0.46%. Romania (-5.36%) exhibited the largest underperformance, while Turkey (11.60%) was the top performer after annual inflation fell by more than expected to 44.4% and the central bank commenced its rate-cutting cycle (all in US dollar terms).

## Outlook

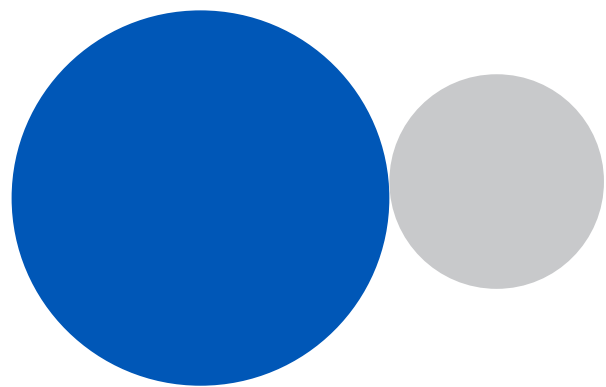
Notwithstanding several uncertainties in the outlook, not least of which is the hawkish stance of the new US administration with respect to global trade, we remain optimistic about the resilience of the Asia Pacific region and its bond markets. While investors contemplate the potential inflationary effects of the US administration's policy initiatives and the consequent impact on the Fed's monetary policy stance, central banks in Asia have shifted to neutral or dovish stances. Additionally, inflation in Asia has generally eased to or near the respective central bank's target level amid slower economic data and favourable base effects.

Yields for Asian credit have once again rebounded towards recent highs, though their overall composition has changed, with lower spreads and higher US Treasury yields compared to mid-2024, when yields were last at these levels. Our expectations are that demand from overall yield buyers will be a larger driver of the market versus concerns over tight spread levels, supported by a resilient fundamental picture.

We look to be fully invested, taking advantage of an active primary market and higher yields to bolster the portfolio's core income generation capacity for the longer term. Cognisant of the myriad risks, ranging from the geopolitics of 'Trump 2.0' and the resurgence of inflation, we are finding opportunities to enhance the overall credit quality of the Fund through our trades as well. Long-dated bonds with low cash prices offer interesting risk-reward characteristics at

this juncture. Additionally, we continue to see an improving environment for the Asian HY segment in the near term – a strong 2024 for Asian HY and improving fundamentals have enhanced primary market access for HY issuers, thus reducing liquidity risks more broadly in the sector.

Outside Asia, we continue to see value in the HY and frontier spaces, where both spreads and yields look attractive, supported by structural reforms and continued multilateral support. That said, strong crossover demand will continue to be supportive for IG issuance. In EM local markets, central banks will continue to cut rates as economies slow and inflation benefits from favourable base effects. We remain overweight Latin America due to attractive real rates in the region. For EM corporates, credit fundamentals remain supportive, and net supply is expected to remain negative as EM corporates continue to pay down bonded debt. As global economic growth slows, we are likely to see downward adjustments to operational performance. However, leverage levels remain low and interest coverage healthy. The largest risk to the EM asset class is a premature end to the Fed's easing cycle and weak EM currencies, which would curtail the capacity of EM central banks to cut rates. In addition, the weaponisation of tariffs by the Trump administration could threaten EM exports and lead to policies that leave EM countries disadvantaged. Geopolitical risks also remain heightened, most recently in the Asia-Pacific region, as America's adversaries – such as North Korea and China – test the new Trump administration's resolve. Additionally, the conflicts in the Middle East and between Russia and Ukraine persist.



## Important Information

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund'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 Fund. 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 Fund will achieve its investment objective. Past performance does not guarantee future results.

This commentary is for informational purposes only, and is not intended as an offer or recommendation with respect to the purchase or sale of any security, option, future or other derivatives in such securities.

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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 emerging market investments.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in the market value of an investment), credit (changes in the financial condition of the issuer, borrower, counterparty, or underlying collateral), prepayment (debt issuers may repay or refinance their loans or obligations earlier than anticipated), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

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

Please see the Fund's most recent annual report for more information on risks applicable to the Fund.

For more information visit [abrdn.com](http://abrdn.com)

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