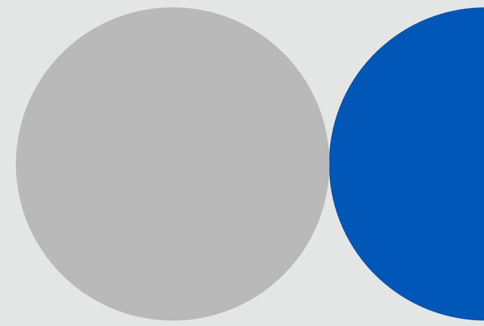
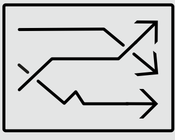
abrdn Asia-Pacific Income Fund



Quarterly Commentary

Quarter ended October 31, 2022

Fund performance



The abrdn Asia-Pacific Income Fund returned -12.27%[1] on a net value basis for the three-month period ended October 31, 2022, underperforming the -12.09% return of its blended benchmark.[2]

US Treasury yields surged to levels not seen since the global financial crisis after central bankers pledged at Jackson Hole to keep up the fight against decades-high inflation and the Federal Reserve (Fed) led policymakers in another barrage of aggressive rate hikes around the world. Asian local currency markets outperformed US Treasuries with central banks in Asia mostly on much shallower tightening paths than their developed-market peers. The policy divergence has supported a continued surge in the dollar (up 16% year to date) that has weighed on global currencies, including in Asia. Rising Treasury yields and growing fears of recession weighed on emerging market debt and Asian credit.

Core rates markets and Asian currencies rallied strongly after quarter-end as US inflation for October printed below expectations and China announced a long-awaited, although tentative, easing of the Covid restrictions that have weighed on global growth for many months.

Top 10 Holdings (%)

Holding	%
Mexico (Govt of) 8.5% 2029	2.2
Indonesia (Govt of) 8.75% 2031	2.0
Nota Do Tesouro Nacional 10% 2029	1.8
China (Govt Of) 2.68% 2030	1.7
Hutchison 7 1/2% due 27	1.6
Indonesia (Govt of) 6.125% 2028	1.6
Indonesia (Govt of) 8.25% 2029	1.6
India (Govt Of) 7.26% 2029	1.6
Korea (Govt of) 2.5% 2052	1.5
China (Govt of) 2.37% 2030	1.5
Percent of Portfolio in Top Ten	**17.2**

Source: abrdn 10/31/2022.

Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown.

Figures may not always sum to 100 due to rounding.

[1] **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. Net asset value return data include investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.**

[2] The Fund's blended benchmark comprises 40% Markit iBoxx Asian Local Bond Index, 35% 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.

Cumulative and annualised total return as of October 31, 2022 (%)

	NAV	Market Price
Since inception (p.a.)	6.36	5.82
10 Years (p.a.)	-1.75	-3.71
5 Years (p.a.)	-3.91	-5.96
3 Years (p.a.)	-8.72	-10.11
1 Year	-27.75	-37.64
Year to Date	-27.59	-32.06
3 Months	-12.27	-12.09
1 month	-4.31	-4.95

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

Aberdeen Asia-Pacific Income Fund Distribution Rates[3]

Fund	FAX
NAV Yield[3]	10.48%
Market Yield[3]	12.64%

[3] As of ex-dividend date of October 31, 2022.

The following tables set forth the estimated amounts of the sources of the distributions for purposes of Section 19 of the 1940 Act and the rules adopted thereunder. The tables have been computed based on generally accepted accounting principles. The tables include estimated amounts and percentages for the current distributions to be paid as well as for the cumulative distributions paid relating to fiscal year to date, from the following sources: net investment income; net realized short-term capital gains; net realized long-term capital gains; and return of capital. The estimated compositions of the distributions may vary because the estimated composition may be impacted by future income, expenses and realized gains and losses on securities and currencies.

The Fund's estimated sources of the current distributions to be paid and for its current fiscal year to date are as follows:

Estimated Amounts of Current Distribution per Share

Fund	Distribution Amount	Net Investment Income		Net Realized Short-Term Gains[4]		Net Realized Long-Term Gains		Return of Capital	
FAX	$0.0275	$0.0140	51%	-	-	-	-	$0.0135	49%

Estimated Amounts of Fiscal Year to Date Cumulative Distributions per Share

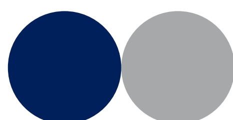
Fund	Fiscal Year[5] to Date Distribution Amount	Net Investment Income		Net Realized Short-Term Gains[4]		Net Realized Long-Term Gains		Return of Capital	
FAX	$0.0275	$0.0140	51%	-	-	-	-	$0.0135	49%

[4] Includes currency gains.

[5] FAX has a 10/31 fiscal year end.

Where the estimated amounts above show a portion of the distribution to be a "Return of Capital," it means that the Fund estimates that it has distributed more than its income and capital gains; therefore, a portion of your distribution may be a return of capital. A return of capital may occur for example, when some or all of the money that you invested in a Fund is paid back to you. A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with "yield" or "income."

The amounts and sources of distributions reported in this notice are only estimates and are not being provided for tax reporting purposes. The final determination of the source of all distributions for the current year will only be made after year-end. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the Fund's investment experience during the remainder of the fiscal year and may be subject to change based on tax regulations. After the end of each calendar year, a Form 1099-DIV will be sent to shareholders for the prior calendar year that will tell you how to report these distributions for federal income tax purposes.



The following table provides the Fund's total return performance based on net asset value (NAV) over various time periods compared to the Fund's annualized and cumulative distribution rates.

Fund Performance and Distribution Rate Information

Fund	FAX
Average Annual Total Return on NAV for the 5 Year Period Ending 10/31/2022[6]	-3.91%
Current Fiscal Period's Annualized Distribution Rate on NAV[7]	11.58%
Cumulative Total Return on NAV[6]	-27.75%
Cumulative Distribution Rate on NAV[7]	11.58%

[6] Return data is net of all fund expenses and fees and assumes the reinvestment of all distributions reinvested at prices obtained under the Fund's dividend reinvestment plan.

[7] Based on the Fund's NAV as of October 31, 2022.

Shareholders should not draw any conclusions about a Fund's investment performance from the amount of the Fund's current distributions or from the terms of the distribution policy (the "Distribution Policy").

Market review

Central bankers pledged at Jackson Hole in August to keep up the fight against inflation, firmly rejecting market pricing of a policy pivot. The Federal Reserve (Fed) duly led policymakers around the world in another barrage of aggressive rate hikes and delivered its fourth 75bps hike in a row in early November.

US Treasury yields surged to levels not seen since the global financial crisis, with the 10-year yield rising by 140bps to 4.05% and the 2-year yield by 160bps to 4.48%. The US curve remains firmly inverted, consistent with Fed Chair Jerome Powell conceding that controlling inflation was likely to require a sustained period of below-trend growth.

Yields rallied strongly shortly after the October quarter-end as US inflation printed below expectations. Headline CPI fell to 7.7% and, importantly, core inflation also eased lower to 6.3% from its highest level in 40 years. The broader picture remains one of stabilising inflation as commodity prices ease and supply bottlenecks clear. Some economies are potentially already seeing inflation peak.

Financial conditions are tightening, which is what the Fed wants to see, as equities and bonds correct and rates rise, but this will likely begin to feed into a weaker employment picture and a very different economic backdrop in 2023. Housing and other key sectors of the US economy are rolling over, with mortgage applications declining and house prices falling across the country – even before people feel the full brunt of mortgage rate resets. Some activity data has softened although employment remains resilient.

The IMF expects global inflation to peak later this year. However, it warned that a third of the global economy could contract next year as it cut its 2023 growth forecast to 2.7% from the 2.9% it projected in July and 3.8% at the start of the year. The IMF sees the risk of policy miscalculation as having risen sharply, with a greater risk that central banks do too little – for example, by starting to ease again too soon – rather than too much as they struggle to control inflation.

The IMF expects emerging and developing Asia to grow next year by 4.9%, outpacing other regions within global emerging markets and well ahead of developed markets. It forecasts that India will grow next year at 6.1% (the fastest rate among major economies) while China will grow at 4.4%.

The Brent crude oil price declined from its highs of the spring and summer to end the quarter nearly 14% lower at $94.8 a barrel. However, with winter approaching alongside OPEC+ agreeing to cut daily output by 2 million barrels, an EU embargo on Russian crude while China is seeking to reopen its economy following the latest Covid restrictions could keep oil markets volatile.

Growth headwinds in the US are coming into play for Asian rates markets. Economic surprise indicators for the Asia Pacific region fell sharply from August into September, moving back into negative territory and indicating a prevalence of disappointing data.

However, the environment in Asia has some distinct characteristics compared with the US. There is far less demand-pull inflation, tightness in labour markets or need to urgently withdraw liquidity. This is a result of not over-easing and, in the case of Korea, proactively beginning policy normalisation sooner. Hence, policymakers should reach terminal rates sooner. Inflation in Asia has recently been mixed, continuing to rise in South Korea, Singapore, Philippines and Thailand and easing in India, Indonesia and Malaysia.

Contributing to market concern, China's policymakers may have signalled concern with the downside risks to their economy, shocking markets in mid-August by cutting its key interest rate, the one-year loan prime rate, by 10bps as the economy continues to struggle against Covid lockdowns, a worsening housing slump and cooling global outlook. Alarming signs from China's September data helped local currency government bonds to rally. Data included the unemployment rate rising to 5.5% from previously 5.3%, exports weakening to 5.7% from 7.1% and retail sales contracting to 2.5% from 5.4%. Property investment weakened further, as did property new starts. The regular central bank survey on credit loan demand remained weaker than in the first quarter, especially for property loans.

More positively, industrial production rose to 6.3% and fixed asset investment edged higher to 5.9%. The 20th party congress as expected re-elected Xi Jinping for a historic third term. Officials also proposed an ambitious growth target up to 2035 and a stronger tone on Taiwan.

Indonesia hiked rates three times over the quarter, by an aggregate 125bps. Bank Indonesia (BI) described the policy as "front-loaded, pre-emptive and forward-looking" to guide inflation back to the target range next year while also safeguarding the stability of the rupiah. BI hopes to support the rupiah with its version of Operation Twist, buying longer-dated bonds and selling shorter-term ones to attract foreign inflows.

Inflation in Singapore remains broad-based and notably sticky in food and services. The Monetary Authority of Singapore (MAS) tightened policy in October for a fifth time since the pandemic by re-centring upwards the Singapore dollar NEER by approximately 200bps. MAS revised its inflation forecasts higher and now expects core CPI of "around 4%" (previously 3%-4%) and headline CPI of "around 6%" (previously 5%-6%). Policymakers admitted there could be further upside risks to inflation due to elevated unit labour costs and the further pass-through of cost pressures.

The Bank of Korea (BoK) hiked its policy rate by 25bps in August and 50bps in October, although the latter move was somewhat dovish as two board members preferred 25bps. BoK raised its inflation forecasts and signalled that it might have to keep raising rates for longer to curb rising prices. Korea's export momentum continued to fade. The current account slipped to a $3bn deficit in August as the weakness in trade impacted the balance of payments. Korea may see support for its bond market coming from a sooner-than-expected announcement of the removal of taxes on bonds, which should help the case for global index inclusion. A decision is expected in March 2023 and could trigger substantial foreign inflows into the market.

The Bank of Thailand (BoT) raised rates by 25bps in both August and September, with the moves considered dovish as policymakers emphasised that policy normalisation would be gradual and measured. BoT also raised its inflation outlook marginally and reduced its 2023 growth estimate, despite a better-than-expected outlook for tourism. The trade deficit fell sharply over the quarter, reflecting both stronger exports and weaker imports.

Asian local currency markets outperformed US Treasuries over the quarter, with China's government bonds seeing the strongest performance as the 10-year yield fell by 12bps. Benchmark yields rose in India (+13bps), Indonesia (+40bps), Malaysia (+46bps), Thailand (+70bps) and Singapore (+77bps). There were steeper rises in 10-year yields in Hong Kong (+139bps), Philippines (+102bps) and South Korea (+110bps), although these markets also outperformed US Treasuries.

The relative performance between core markets and Asian markets is consistent with how much central banks are expected still to have to tighten to reach their price stability goals. The Fed, European Central Bank and Bank of England are all expected to have to continue raising rates aggressively into the end of the year. In contrast, central banks in Asia are mostly on much shallower tightening paths, with China, India, Indonesia and Korea expected to tighten by less than half as much as their developed-market peers.

The surge in the US dollar (the DXY index rose by 5.3% over the quarter) is challenging economies around the globe and continued to cause broad weakness across Asian currencies. Even the relative outperformers of the Singapore dollar (-2.6%), baht (-3.4%) and rupee (-4.4%) suffered sizeable falls while there were larger declines in the rupiah (-5.2%), ringgit (-6.2%) and Philippine peso (-5.1%). The laggards over the quarter were the won (-9.7%) and China's offshore yuan (-8.7%).

Market volatility has forced central banks across Asia to intervene to support their currencies. South Korea pledged to buy $2bn of sovereign debt while selling dollars. China continued to try to slow the yuan's decline through tighter daily fixing. Indonesia's central bank sought to defend against weakness through front-end bond selling. Thailand's central bank delivered a verbal intervention declaring its readiness to stem the baht's high volatility. It wasn't until October that the dollar finally showed signs of faltering under the weight of crowded long positioning, although by then the dollar had strengthened 16% since the start of the year.

It was a challenging quarter for Asian credit due in large part to the underperformance of the high-yield sector, in particular high-yield China real estate names and sovereigns Pakistan and Sri Lanka. The JPMorgan Asian Credit Index Diversified (JACI) delivered a quarterly return of -7.69%, with investment-grade bonds (-6.89%) outperforming high-yield (-11.18%). Benchmark spreads widened by 71bps over the quarter to 370bps.

Weakness was widespread across market sectors, with real estate again lagging while the consumer sector also underperformed. Metals & mining was relatively the most resilient sector but was also deep in negative returns territory. Beset by ongoing economic challenges, Pakistan and Sri Lanka were again the worst performers by country.

The woes in China real estate claimed another victim as CIFI, one of the more established private developers, was rumoured to be struggling to make payments on certain trust products. This raised default concerns despite the company's guaranteed onshore bond issuance, which weighed on already fragile investor confidence.

Primary market supply was subdued but picked up a little in October, albeit the monthly volume this year was less than a third of the average of the past five years as the macro uncertainty and elevated rates volatility continued to keep both issuers and investors on the sidelines.

Emerging markets faced a challenging quarter as US Treasury yields surged to levels not seen since the global financial crisis, with the Fed conceding that controlling inflation was likely to result in a sustained period of below-trend growth. Sovereign credit spreads widened as fears over the economic outlook were exacerbated by China's continued Covid lockdowns weighing on activity domestically and in trading partners. Over the three months, in hard-currency debt the JPMorgan EMBI Global Diversified Index returned -7.11%, with the spread on the index widening by 10bps to 543bps over US Treasuries. High-yield names (total return -4.82%) outperformed higher-quality investment-grade bonds (total return -9.20%). No region had a positive return over the quarter, with Asia underperforming and emerging Europe outperforming.

By country El Salvador outperformed on rumours of another buyback operation, despite the country being downgraded by Fitch on risks stemming from its increased reliance on short-term debt, substantial upcoming maturities and a still-high fiscal deficit. Pakistan underperformed and was also downgraded by Fitch due to the further deterioration of external liquidity and funding conditions and the decline of FX reserves, as the country slides deeper into debt distress.

In local-currency debt, the JPMorgan GBI-EM Global Diversified Index (unhedged in US dollar terms) returned -5.84%, while the yield on the index increased by 59bps to 7.43%. Turkey's bonds performed strongly as it introduced measures to manage surging credit growth. The bonds rallied despite the central bank continuing to cut interest rates in the face of surging inflation, which has led to ratings downgrades. Egypt underperformed on the announcement of an agreement with the IMF for a $3bn facility for 46 months, with the bonds selling off on the market's disappointment at the small size of the financing package.

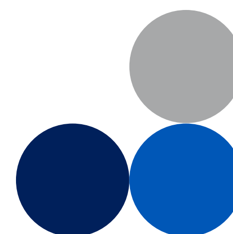
Outlook

Core Asian rates markets rallied sharply in early November after US inflation printed below expectations and China announced a long-awaited, though tentative, easing of its strict zero-Covid restrictions. This performance of the rates market gives a flavour of the environment we have been looking to position for, albeit we are mindful that the market may be overreacting due to technical factors around positioning, most notably in short rates and long dollars.

The move in US Treasuries prices out too much of the tail end of the policy normalisation cycle, and with inflation expected to remain high, the Fed will likely still take the terminal rate to 4.75%-5%. As a result, we see an opportunity to trim some long duration exposure into this move, with the intention of repositioning risk again over the next couple of months. Similarly, the recent strong rises in Asian FX arguably also look like an overreaction driven by concentrated positioning. Notwithstanding this, the Singapore dollar, however, is expected to remain more supported as the inflation backdrop necessitates further tightening by authorities.

The cyclical investment environment will remain challenging for Asia corporates until the knock-on effects of the Fed's rate hiking become clear. While it is difficult to view current macro themes in a positive light, we can be more constructive around the fact that credit valuations are attractive. We expect near-term volatility and price action to have a negative skew but expect this to provide opportunities to pick up names where our fundamental approach gives us strong conviction in a company despite a significant dislocation in pricing. In these uncertain times, we prefer issuers with an established market position or those that demonstrate access to a variety of financing channels – traits that will underpin a company's ability to weather a downturn. We see better risk/reward in investing in subordinated paper from stronger issuers than going far down the credit ratings curve.

In emerging markets, we believe the likely peaking of global food and energy prices should see inflation decelerate towards the end of the year. This should bring an end to rate tightening cycles in EMs, with Brazil and Chile leading the way in this regard. That said, with developed markets seemingly relentlessly pursuing policy tightening, we expect the volatility that impacted EM debt in the period to persist. As the macroeconomic environment continues to evolve, we remain selectively cautious in adding risk, including in a handful of investment-grade names, such as Hungary, where spread widening has been more severe than their peers.



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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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