1825 Portfolio 5

Commentary second quarter 2021

This summary provides market commentary from our investment experts, and details any changes made to Portfolio 5 during the second quarter of 2021. The commentary is intended to give you a general overview of the market, and does not constitute advice.

In brief:

- All major world equity indices rise
- US shares are particularly strong, driven by technology stocks
- Government and corporate bonds rise, despite increasing inflation

Environment

Global equities gained over the second quarter, with most major world indices rising. US equities were particularly strong, driven by technology stocks. However, Japanese equities underperformed most major world indices, amid fears over rising coronavirus infections and the slow domestic vaccination programme. Positive economic figures from the US and China, ongoing fiscal policy measures and reassuring comments from global central banks supported sentiment. Investor optimism also improved on the back of largely successful Covid-19 vaccine rollouts. These offset fears over the delta variant that was responsible for an alarming rise in Covid-19 cases in India in April and that is quickly spreading to other countries across the world. From mid-May, investor focus shifted to corporate earnings announcements, which were generally better than expected. While some travel-related areas remain challenged, worldwide vaccine rollouts continue to accelerate. This has allowed businesses to reopen and the recovery to broaden out.

Following a challenging first quarter for bonds, they stabilised in the second quarter, with the sell-off in government bonds pausing early in the period. Government bonds generally rose as investors continued to seek out returns in a low-yield environment. In particular, investors favoured emerging market debt and inflation-linked securities. UK gilts were among the best performers, alongside US Treasuries and Japanese government bonds, while European bonds lagged. Corporate bond returns were also positive, despite the Federal Reserve announcing it would begin offloading corporate bonds bought through its pandemic support plan. Once again, sectors and issues that have been most affected by the pandemic continued to do well, as optimism around a global economic recovery increased. As a result, high-yield debt generally outperformed investment-grade issues, although all sectors and issuers posted positive returns.

Activity and performance

Please refer to Page 3 for a full breakdown of portfolio holdings.

Strategic Asset Allocation (SAA)

Equities (in the main) performed well over the three months to the end of June. The US and Europe were the most productive regions from a returns perspective (up 8.41% and 8.27%, respectively). The continued roll out of vaccine programmes and the scheduled opening up of economies provided a boost to performance in these regions. Meanwhile, the UK, emerging markets and Asian equity markets delivered solid but less impressive returns (5.6%, 5.12% and 4.95%, respectively). The Japanese equity markets have been the real laggard this quarter, with rising Covid-19 cases and further lockdown measures really weighing on the region (Topix being down 0.89% in sterling terms).

Alternative asset classes performed strongly over the second quarter. Infrastructure assets benefited from the perception that positive progress is being made on the proposed bipartisan bill to increase the level of spending on US infrastructure projects.

Tactical Asset Allocation

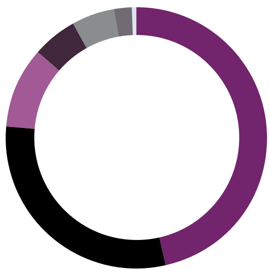
Tactical asset allocation (TAA) delivered mildly positive outcomes during the quarter.

The Portfolio benefited from an underweight position in global listed infrastructure. This underweight helped fund overweight positions in our preferred equity regions of the US, UK and emerging markets. The overweight to US equities contributed positively to returns.

Manager selection

Fund Selection was a negative influence over the second quarter. It was a difficult market for managers to navigate, with market rotation being violent. Within European equities, the more value-orientated Invesco European Equity Income Fund suffered in a market that favoured a more quality growth approach. The BlackRock European Dynamic Fund fared far better against this backdrop, but was only able to offset some of the negative relative contribution. There was a weaker showing from the Vanguard US Equity Index Fund, whose small- and mid-cap tilt fared less well over the second quarter, with the mega-cap-orientated S&P 500 Index outperforming. Meanwhile, the Fidelity Asia Fund also faced a more challenging quarter, giving back the outperformance generated over the first quarter, and a little bit more. Strong returns from the Tellworth UK Smaller Companies Fund ensured that the UK equity basket delivered returns ahead of the benchmark, but only to a limited extent. So it was a challenging quarter concerning fund selection, overall.

1825 Portfolio 5 Asset class breakdown



US Equities	46.51
UK Equities	29.96
European Equities	10.14
Asia-Pacific ex Japan Equities	5.38
Japanese Equities	5.34
Emerging Market Equities	2.19
Cash & Money Markets	0.48

The comments above refer to the past. Past performance is not a reliable guide to future performance. As with any investment, the value of your portfolio can fall as well as rise – you may get back less than you pay in.

Outlook

The global economy will likely experience a period of above-trend growth as it rebounds out of the Covid-19 crisis. The current market backdrop is supportive for equities, with investor concern about long-term inflation abating and developed market monetary policy remaining accommodative. Moreover, better company fundamentals have also kept investors buoyant. However, it is still possible that inflationary concerns may re-emerge. Additionally, central banks have started to signal the need to reduce asset-repurchase programmes. Also, as the investment cycle matures, valuations rise and sentiment improves, prospective returns should steadily diminish.

Within fixed income, increasing vaccine dissemination and the progressive easing of Covid-19 mobility restrictions are supporting both economic activity and sentiment.
The economic recovery in the US has been particularly strong, with an annualised real GDP growth rate of 6.4% in the first quarter. As a result, inflation has also been picking up strongly, and a key focus of investor attention is on whether this will be transitory or more long-lived. Evidence suggesting the latter would not be seen favourably.

1825 Portfolio 5 breakdown	Q2 2021
Holding	Weights
Asia-Pacific ex Japan Equities	**5.38**
Fidelity Asia Fund Accum W GBP	5.38
Cash & Money Markets	**0.48**
British Pounds	0.48
Emerging Market Equities	**2.19**
Artemis Funds (Lux) SICAV Global Emerging Markets FI Capitalisation	1.10
RWC Global Emerging Markets Fund S GBP Capitalisation	1.10
European Equities	**10.14**
Aberdeen European Equity Enhanced Index Fund accum N GBP	2.55
Barings Europe Select Trust Units I GBP	1.00
Blackrock European Dynamic Fund Class FD GBP Units	2.59
Invesco European Equity Income Fund (UK) Y GBP	1.48
Schroder European Fund Class L GBP Ptg Units	2.51
Japanese Equities	**5.34**
Legal & General Japan Index Trust Class C GBP Units	5.34
UK Equities	**29.96**
JOHCM UK Dynamic Fund Class Y GBP	7.50
JPM UK Active Index Plus Fund Class E GBP Accum Shs	11.93
Lazard UK Omega Fund Class F GBP	7.47
LF Tellworth UK Smaller Companies Fund Accum F Unhedged GBP	3.05
US Equities	**46.51**
Vanguard US Equity Index Fund Institutional Plus Class GBP Ptg Shs	46.51
	100.00%

Each client portfolio is reviewed and rebalanced regularly where necessary. Fund selection and asset allocation are monitored on an ongoing basis, and will be changed as considered appropriate by the Portfolio Managers.

Charges

The ongoing charges figure quoted below includes the abrdn discretionary investment management charge (0.20%) and fund level management charges. It does not include product and adviser specific charges – speak to your abrdn Financial Planner for full details.

Ongoing charges figure	0.54%

Note: the Portfolio holdings,asset class breakdowns, and ongoing charges, figure shown on this page are correct as at 30/06/2021. They will change from time to time. Source: abrdn.

For more information visit abrdn.com/financial-advice