abrdn Income Credit Strategies Fund

Quarterly Commentary

Three-month period ended July 31, 2024

Fund performance

The abrdn Income Credit Strategies Fund returned 3.79%[1] (on a net asset value basis) during the three-month period to 31 July 2024, underperforming the 4.00% return of its benchmark, the I.C.E. Bank of America (BofAML) Global High Yield Constrained Index (hedged to US dollars).[2]

Sector wise, building materials detracted from relative performance as our exposure HT Troplast was particularly weak. Meanwhile, the gaming sector, including our holdings in Affinity Gaming and 888 Acquisitions, was unfavourable. The metals & mining sector was also negative. Conversely, our inherited position in the equity of clothing retailer True Religion, contributed to relative performance. The healthcare sector, including our holdings in Laboratoire Eimer and Community Health Systems, was also positive. The wirelines sector also added to returns.

In terms of ratings[3], CCCs and Cs detracted from relative performance while BBs and non-rated bonds were notable contributors.

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

	NAV	Market Price
Since inception (p.a.)	4.04	3.53
10 Years (p.a.)	2.55	3.12
5 Years (p.a.)	1.81	1.55
3 Years (p.a.)	(0.34)	(1.85)
1 Year	15.56	13.63
Year to date	5.08	6.52
3 months	3.81	4.43
1 month	1.68	(2.22)

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. Aberdeen Standard Investments Inc.(the "Adviser") became the Fund's adviser on December 1, 2017. For periods prior to that date, the returns reflect performance information from a prior, unaffiliated adviser.

[1] **The performance quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 800-387-6977 or visiting abrdn.us.**

[2] I.C.E. BofAML Global High Yield Constrained Index tracks the performance of U.S. dollar-, Canadian dollar-, British pound- and euro-denominated below-investment-grade corporate debt publicly issued in the major domestic or eurobond markets. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Index performance is not an indication of the performance of the Fund itself. For complete fund performance, please visit **abrdn.us**.

[3] S&P Global Ratings, Fitch Ratings and Moody's Investors Service are independent, unaffiliated research companies that rate fixed income securities on the basis of risk and the borrower's ability to make interest payments. S&P and Fitch assign ratings ranging from AAA (reliable and stable) to D (high risk) to communicate the agency's opinion of relative level of credit risk. Moody's credit ratings range from Aaa to C, with Aaa being the highest quality and C the lowest quality.

For current holdings information, please visit abrdn Income Credit Strategies Fund - Portfolio Holdings.

Market review

High-yield spreads were volatile over the second quarter, but ended the period only single digits higher than at the start of the period. Government bond yields rallied at the end of the period, accounting for much of the positive return.

In May, the market celebrated the combination of softer economic data and dovish central bank rhetoric, propelling the S&P 500 to yet another all-time high that coincided with a rally across the fixed-income landscape. The momentum continued in June after the European Central Bank cut rates, and optimism for rate cuts increased in the US after data pointed to a softer job market, weaker wage growth and cooler retail sales. This, in turn, drove the US 5-year Treasury yield down by 13 basis points (bps) and the 5-year bund yield down by over 22 bps during the month.

The global high-yield market continued to perform well in July, as a string of softer economic data sent government bond yields lower, propelling duration-sensitive asset classes to impressive monthly returns. For July, the Bloomberg Global High Yield Corporate Index (USD) generated a total return of 1.77% which was the top monthly performance so far in 2024. Remarkably, July's positive performance came in an environment where high-yield spreads were wider, going from +328 bps at the start of the month to +334 bps at month-end.

In terms of geographies, the US led the way, outperforming both emerging markets and European high yield despite respectable returns from both cohorts. Lower quality credits were the clear outperformer during the year, with the deeply distressed portion of the market, rated CC and D, now up over 26% year to date, which is remarkable in an environment where the overall market is up approximately 5%.

Outlook & strategy

With the artificial-intelligence mania starting to fade and economic data showing signs of a softening labour market, the shine is coming off what has been a remarkable rally in risk assets for the better part of the past two years. However, company fundamentals remain in sound shape at the moment, making it difficult to envision anything more than a valuation reset in the coming months, if the data continues to lack a clear picture of pronounced deterioration. Spreads in the high-yield market have slowly drifted wider off the tights, but yields remain steady in the mid to high 7% area, making the asset class attractive to income-focused investors. The positive technical of money flowing into the asset class is unlikely to reverse with yields in the high single digits. Additionally, while new-issue supply has picked up markedly versus last year, it remains digestible given what is really just a return to more normalised levels post a tepid 2023. Given the emergence of mixed economic data, we are cautious in adding incremental risk to the portfolio. However, we expect the increased volatility will provide opportunities to recycle lower yielding credits into higher yielding credits at more attractive valuations.

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 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.

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).

Derivatives are speculative and may hurt the portfolio's performance. They present the risk of disproportionately increased losses and/or reduced gains when the financial asset or measure to which the derivative is linked changes in unexpected ways.

Non-investment-grade debt securities (high-yield/ junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities, and are subject to different accounting and regulatory standards, and political and economic risks. These risks are enhanced in emerging markets countries.

Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other fund information, please call 866-667-9231 to request a summary prospectus and/or prospectus,
or download at abrdn.us. Please read the summary prospectus and/or prospectus carefully before investing any money.

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