TwentyFour ASSET MANAGEMENT

# TwentyFour Select Monthly Income Fund

Monthly Commentary | 30 April 2020

## Market Commentary

Covid-19 continued to dominate headlines in April, but risk markets took comfort from a slowdown in its spread and further central bank support. As a result the S&P 500 rallied 17.9% in the month, while the iTraxx Xover index rallied from its March wide of 707bp to close April at 491bp.

Despite increasing fatalities, the number of new virus cases began to plateau during the month and focus began to switch to lockdown exit strategies, as world leaders weighed up the economic pressure and social issues associated with isolation.

Central banks continued to be supportive, particularly the US Federal Reserve, which announced further measures to aid liquidity by purchasing high yield ETFs and the debt of certain 'fallen angels'. The European Central Bank also stepped up measures, improving the terms on its TLTROs to lend money to banks at -1% and announcing new pandemic emergency lending operations (PELTROs). Eurozone politicians however disappointed the markets by failing to agree a coordinated response and how to finance their EU Recovery Fund.

The April data was keenly anticipated as investors tried to assess the economic fallout from the virus and lockdown. Weekly US jobless claim figures showed a huge jump in unemployment benefit claims, taking the total for the first six weeks of lockdown to some 30m. China's Q1 GDP came in at -6.8% year-on-year, while US Q1 GDP fell -4.8%, the first contraction since 2014 and the biggest decline since the global financial crisis. It was a similar story in the euro area, where GDP was -3.8% for the first quarter and the ECB estimates it could contract by as much as 15% in Q2.

Q1 earnings season began in the US with many corporates withdrawing their outlook guidance due to the elevated uncertainty and minimal visibility regarding future earnings. In the banking sector, revenues held up well with sales and trading buoyed by recent market volatility, though large coronavirus-related loan loss provisions were applied to manage future challenges. Yet from a credit perspective, and despite the impairment charges, most banks maintained their healthy capital levels as dividend distributions were put on hold.

Russia and Saudi Arabia finally came to a deal to cut oil output, though this did little to stabilise prices. Lower demand drove prices lower and WTI crude reached a 21-year low. Towards the end of the month, tensions flared between the US and China as President Trump accused China of concealing the outbreak of the virus and threatened tariffs in retaliation. Elsewhere President Trump grabbed the headlines as he withdrew US funding for the World Health Organisation, claiming they are overly political and too slow to respond to the original virus outbreak in late 2019.

## Portfolio Commentary

Market sentiment significantly improved during April as support from central banks and governments boosted investor confidence. This was illustrated as the primary markets reopened and were met with a healthy appetite for bonds, particularly with the first raft of new issues printing at attractive levels.

The portfolio managers were active during the month, taking advantage of the higher yields and investing the newly issued capital and also the proceeds from a number of bonds that matured during the month. The purchases were concentrated in sectors that are seen as being most resilient to the recession and that offer the best earnings and balance sheet visibility and transparency. One of these sectors is banks, where recent earnings showed that despite large loan loss provisions, on the whole, capital positions remain strong. In addition, other sectors with similar characteristics, such as insurance companies and utilities, were also added, as were a number of asset-backed securities.

There were positive returns across the board for the month with risk-on assets leading the charge, especially the CoCo index, which finished the month up +8.66% after its underperformance in March. High yield and emerging markets also performed well but not to the same extent; euro high yield posted a return of +5.96%, followed by sterling HY (+4.63%), US HY (+3.8%) and then EM (+3.66%).

The Fund performed well in line with the broader market, adding 4.3%, with the return being slightly muted by the CLO sector, which has unsurprisingly lagged the recovery.

## Market Outlook and Strategy

COVID-19 developments will continue to dominate newsflow and the market will be paying close attention to case numbers in countries where lockdowns are eased and restrictions lifted, as well as any progress on testing and vaccines. While weak numbers are largely expected, key economic data releases will still be important for gauging the extent of the lockdown impact. Similarly, earnings season continues and the team will be analysing releases closely.

With President Trump's rhetoric towards China deteriorating, the threat of trade war comes back to the fore and the portfolio managers will look for any escalation between the two countries.

The team will continue to cautiously invest cash in credit where they see attractive opportunities, focusing on high quality companies and continuing to avoid the lower rated parts of the high yield corporate market.

| Rolling Performance | 30/04/2020 - 30/04/2019 | 30/04/2019 - 30/04/2018 | 30/04/2018 - 28/04/2017* | 29/04/2017 - 30/04/2016 | 30/04/2016 - 30/04/2015 |
|---|---|---|---|---|---|
| NAV per share inc. dividends | -11.58% | 2.17% | 8.89% | 17.11% | -4.32% |

The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and, with the exception of share price performance figures, net of all fund expenses. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the portfolio are purchased and disposed of.

## Fund Managers

**Gary Kirk**
Partner, Portfolio Management, industry experience since 1988.

**Eoin Walsh**
Partner, Portfolio Management, industry experience since 1997.

**Mark Holman**
CEO, Partner Portfolio Management, industry experience since 1989.

**David Norris**
Head of US Credit, Portfolio Management, industry experience since 1988.

**Felipe Villarroel**
Partner, Portfolio Management, industry experience since 2007.

**Pierre Beniguel**
Portfolio Management, industry experience since 2010.

## Key Risks

- **All financial investment involves risk. The value of your investment isn't guaranteed, and its value and income will rise and fall. Investors may not get back the full amount invested.**
- Past performance is not a reliable indicator of future performance, and the Fund may not achieve its investment objective.
- Fixed income carries two main risks, interest rate risk and credit risk: (1) Where long term interest rates rise, there is a corresponding decline in the market value of bonds and vice versa; (2) Credit risk refers to the possibility that the issuer of the bond will not be able to repay the principal and make interest payments.
- Typically, sub-investment grade securities will have a higher risk of issuer default, and are generally considered to be more illiquid than investment grade securities.
- The Fund can invest in structured credit products or asset-backed securities (ABS). The issuer of such products may not receive the full amounts owed to them by underlying borrowers, which would affect the performance of the Fund. Credit and prepayment risks also vary by tranche which may affect the Fund's performance.
- The Fund has the ability to use derivatives, including but not limited to FX forwards, for hedging only (EPM). This may magnify gains or losses.
- Investments in emerging markets may be affected by political developments, currency fluctuations, illiquidity and volatility.

## Further Information

Further Information and Literature: TwentyFour Asset Management LLP

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**Further information on fund charges and costs are included on our website at www.twentyfouram.com**