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TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 31 July 2020

Market Commentary

COVID-19 updates continued to dominate news flow as the number of cases globally topped 15 million, with nearly half of those in the US, Brazil and India (which also have around 40% of the fatalities). With cases in the US spiking again, some states had to pause their planned re-openings or introduce local lockdowns, which became a trend mirrored in parts of Europe as well, such as the UK and Spain. However, despite fears of a second wave, the strong technical picture kept markets on a firm footing and periods of weakness were very short-lived.

Globally governments kept up their accommodative stances, with many increasing stimulus and support. In the US, the government looked for approval from Congress for a further $1tr of stimulus, largely aimed at supporting individuals, while in the EU, leaders finally approved the €750bn EU recovery fund, which consisted of €390bn of grants and €360bn of low interest loans for member states. In the UK, Rishi Sunak, the Chancellor of the Exchequer, issued a summer statement announcing several measures to support businesses and individuals.

The biggest event in July for most market participants was the start of the Q2 earnings season, with US banks leading the way. Bellwether JP Morgan was first out and while Q2 profits were down due to loan loss provisions, the drop was smaller than analyst estimates and the bank set a record for trading activity with its FICC revenues up 120% year-on-year (YoY), starting a tread for blockbuster trading results. In the post-earnings call, CEO Jamie Dimon painted a slightly bearish picture, stating that there is still much uncertainty ahead regarding the US recovery, though most analysts focused on the positive performance and US banks in general exceeded analyst expectations. European banks reported later in the month, with fairly similar results; provisions were mostly increased, but capital ratios and buffer levels also grew and most banks look resilient in the face of what is sure to be rising NPLs and defaults going forward. The big US tech companies also reported late in July, beating consensus estimates and taking the top six stocks in the Nasdaq index to a valuation of around $6.9tr after the earnings releases.

July was generally another firm month for risk assets, with demand remaining robust and the US leading the charge; the S&P 500 was up 5.5% for the month while the tech-heavy Nasdaq was up 7.4%. Astonishingly, the collective market capitalisation of the Nasdaq index reached a value greater than the total GDP of the EU. In Europe, price action was slightly more muted with the Euro Stoxx 50 down 1.85% and the iTraxx Xover index tightening by 5bp.

Economic data was mixed, with China's Q2 GDP surprising to the upside at +3.2% YoY vs 2.4% expected, while some data out of the US disappointed. For example, US Q2 GDP was down 32.9% on an annualised basis, and while this was well-flagged and marginally better than expectations, it still had a negative impact on sentiment. Germany's Q2 GDP print had a similar impact, down 10.1% vs. expectations of -9.0%.

Elsewhere, tensions between China and the US continued to increase with the closure of consulates and threats of sanctions on officials and entities from both sides. On the Brexit front, the UK and the EU had a series of meetings to try to negotiate a trade deal, but to no avail, and it seemed there were still significant gaps between the two sides.

Portfolio Commentary

As expected, July saw a slowdown from the huge issuance numbers from the previous few months, though the early weeks of the month were still very active with new deals. Transactions in the Fund were relatively low, as the Portfolio Managers had kept the Fund fully invested as spreads were expected to continue to grind tighter over the summer months.

There was a similar story in fixed income as there was equities, with the US High Yield index significantly outperforming other areas of credit finishing July at +4.78%. Other HY indices lagged this move but still up on the month at +1.78% and +1.71% for Euro and GBP HY, respectively. EM also outperformed most people's expectations posting a return of +2.72% and the Coco index finishing +1.63%. Despite the strong performance in risk assets, weak fundamentals also gave support to government bonds, with the US again leading the move with treasuries indices returning +1.21%, while European governments and UK gilts indices returned +1.07% and +0.42%, respectively.

The Fund returned +2.34% after fees for the month including its monthly dividend payment, with every sector making a positive contributors. The highest returns came from the CLO and Insurance sectors, both returning over 3% during the month.

Market Outlook and Strategy

Q2 earnings will be in full swing in August and the portfolio managers will keep a close eye on these, as well as any future guidance from companies. Similarly, any economic data releases could be important, especially with some economies having to pause their lockdown easing; the direction of new COVID-19 cases will be closely watched as fears of a second spike continue to grow.

Any developments in the US presidential race could also be important for sentiment. The incumbent, Donald Trump, recently used his Twitter account to suggest delaying the election given current circumstances, and the Democrat candidate, Joe Biden, is set to pick his running mate.

The team expect the market to be relatively subdued in August at the peak of the European summer holidays and for primary markets to be slow relative to recent months. Their base case is for market spreads to grind tighter over the month, supported by the healthy cash balances on the sidelines and lower levels of new issuance.

Rolling Performance	31/07/2020 - 31/07/2019	31/07/2019 - 31/07/2018	31/07/2018 - 31/07/2017	31/07/2017 - 29/07/2016	29/07/2016 - 31/07/2015
NAV per share inc. dividends	-0.41%	4.62%	4.48%	17.96%	-1.49%

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

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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

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For definitions of the investment terminology used within this document please see glossary at: https://twentyfouram.com/glossary

Performance figures are shown in sterling on a mid-to-mid basis, inclusive of net reinvested income and net of the annual management charge and all other fund expenses.The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

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