TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 30 October 2020

Market Commentary

This was a challenging month for risk sentiment as the second wave of COVID-19 spread across Europe, leading to countries imposing secondary lockdowns. France, Germany and the UK all announced new lockdown measures, albeit slightly less restrictive than those imposed in March and April, resulting in underperformance across European assets. The Eurostoxx 50 was down over 7% for the month, compared to the S&P 500 that was only off 2.8%, while in the credit market the benchmark Euro iTraxx Xover index traded in a 66bp range and closed the month near the wides at 369bp.

With Europe facing another wave of economic headwinds the ECB meeting at month-end was closely watched, and while the consensus view was for no policy changes the market was looking for any indication of increased stimulus in the near future. Christine Lagarde did not disappoint as she suggested the board were discussing increasing stimulus at the next meeting in December, referring to a "recalibration" of the ECB's asset purchase programme no less than 20 times in the press conference.

Brexit talks were also in focus as the soft deadline of October 15 set by the UK prime minister, Boris Johnson, passed and negotiations between the two sides continued. As of the end of October, both parties sounded optimistic for a deal to be agreed, with fishing quotas seemingly the only key blocker left in reaching an agreement.

Staying with the UK, rating agency Moody's downgraded the country's sovereign rating to Aa3, citing "weaker economic growth, an erosion of fiscal strength and a weakening in institutions and governance". UK GDP for August also disappointed with a print of 2.1% vs. expectations of 4.6%, and well below last month's revised figure of 6.4%. However, the market reaction to both was largely muted as investors chose to focus on Brexit developments.

Over in the US, it was a news heavy month with the US Presidential elections looming. At the start of OctoberPresident Trump was admitted to hospital after being diagnosed with COVID-19, but after a short stay he was back at the White House and back on the campaign trail. There was also a lot of back and forth on US stimulus talks; despite some positive comments from both the House Speaker, Nancy Pelosi, and the Treasury Secretary, Steve Mnuchin, early on in the month, discussions stalled and the two sides failed to reach an agreement.

Most importantly, voting for the November 3 US presidential election was well under way in October, as many voters took the opportunity to use early voting and postal votes. Around two-thirds of 2016's turnout had already cast their votes by month-end. The significant number of postal votes however could cause a delay in a winner being announced, with several key states involved in litigation over vote counting rules. Nevertheless, at the end of October, the Democrat candidate Joe Biden was ahead in the polls with FiveThirtyEight, a key polling website, which gave him an 8.5-point lead over President Trump. Finally, Q3 earnings season kicked off with the big US banks as usual. JP Morgan and Citigroup were first out and both reported beats on trading revenue and EPS, but painted a cautious picture of the outlook. The tech giants followed, also posting strong numbers.

Portfolio Commentary

The primary market slowed down in October as US election uncertainty and European lockdowns impacted market sentiment and deterred borrowers from issuing. The team kept allocations across sectors unchanged but focused on relative value switches, looking to optimise the portfolio and taking advantage of pockets of weakness in the market to pick up some favourite bonds at attractive levels.

Despite the risk-off sentiment for some of October, credit indices were largely up on the month, led by sterling high yield, which finished the month up 1.13%. Other sectors lagged this move but still saw positive returns; US HY was +0.47%, European HY +0.25%, EM +0.26% and the Coco index +0.44%.

The Fund returned +0.22% (NAV per Share) for the month, with the year-to-date return now -0.91%.

Market Outlook and Strategy

The US election on November 3 will be the main event the portfolio managers will be watching, with the prospect of a delay to the winner being announced (and the loser conceding) have increased. The result is seen as key for many reasons, but for markets it will be critical for the ultimate size of any new fiscal stimulus package. Any delay or uncertainty about the result is likely to lead to some market volatility in the short term. The second event to watch will be the Brexit negotiations as the deadline draws closer and prospects of a deal increase. Talks between the two sides continue in early November. Both events could lead to an increase in market volatility, however the team believe any weakness will be short-lived given the supportive technicals. They remain highly selective and prudent on credit risk.

Rolling Performance	31/10/2019 - 30/10/2020	31/10/2018 - 31/10/2019	31/10/2017 - 31/10/2018	31/10/2016 - 31/10/2017	30/10/2015 - 31/10/2016
NAV per share inc. dividends	1.72%	6.35%	2.09%	15.80%	4.49%

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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Partner, Portfolio Management, industry experience since 1988.

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David Norris
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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