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TwentyFour
ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 31 December 2020

Market Commentary

2020 was a year like no other as COVID-19 brought most major economies to a standstill and threw financial markets into turmoil, with the speed and magnitude of the sell-off on a scale not even seen during the global financial crisis. However, the unprecedented intervention from central banks and governments spurred a strong recovery in asset prices with high quality assets leading the charge.

December is typically a benign period for markets as borrowers and investors gradually wind down towards year-end vacations. This year was different with investor appetite for risk assets very much in evidence throughout the month, resulting in a strong finish for credit markets as euphoria over the release of a number of vaccines outweighed the announcement of new COVID variants that appear more infectious than the original. As 2020 ended, the S&P 500 reached an all-time high, up 16.26% on the year. The iTraxx Crossover index finished the year at 242bp, 23bp tighter over the month and a level last seen in late February before the March sell-off took hold.

2020 also finally brought an end to the Brexit saga, and thus the removal of one big market uncertainty, as the UK and Europe signed a bilateral trade agreement on Christmas Eve, just a week before the end of the transition period. The deal saw significant backing from the UK parliament, with 521 MPs in support and only 73 against. While there are still a couple of topics to be ratified, the agreement has removed one of 2020's key tail risks and prevented a no-deal Brexit, which looked likely at several points in December.

In the US, President Trump signed a bill allowing $900bn of COVID-19 relief to be released after many lost unemployment benefits over the holiday period. He also demanded that Congress increase the amount per individual from $600 to $2000, in line with what the Democrats have been requesting, but as expected Republican hardliners helped scupper the deal. Trump also continued to call for an investigation into voter fraud but to little avail as state legislators refused the legal arguments put forward.

The ECB had its final meeting of 2020 and announced further stimulus, most significantly expanding the PEPP programme up to €1.85tr (an increase of €500bn) and extending the duration for another nine months until at least March 2022. The market reaction was relatively muted as the increase in stimulus had been well flagged. The Fed and the BoE followed but there were no changes from either. Fed chair Jerome Powell stressed that the current pace of QE would remain in place for some time and BoE governor Andrew Bailey said that while the Bank expects Q1 growth to be impacted by the heavy restrictions, the positive vaccine news should be supportive.

Portfolio Commentary

Primary issuance slowed in December as is normally the case leading into the holiday period, but especially so after the record levels of supply already seen in 2020. While supply took a breather, secondary spreads continued to grind tighter as the positive technical remained. Fund allocations remained unchanged overall but the team took the opportunity to look for relative value switches to optimise the portfolio.

December was a good month for risk markets as they finished higher, led by US High Yield at +1.91% with other high yield markets lagging slightly (euro HY was +0.83% and sterling HY +1.04%). EM also performed well, posting a return of +1.42% for December and +7.81% for the year, while the Coco index was up +1.09% for the month. The Fund was well positioned for the risk rally and returned 1.72% for the month.

Market Outlook and Strategy

January will be a key month for US politics with President-elect Biden due to be inaugurated on January 20. With Trump still calling for an investigation in to voter fraud, there could be an increase in headlines leading up to the event. The team will closely watch the Senate run-offs in Georgia on January 5 as in the case that the Democrats win both seats, they will have control of both houses potentially allowing President-elect Biden more room to make changes.

COVID-19 cases were on the rise in December and this is expected to increase in January after the relaxation of social distancing rules over the holiday period, with many countries forced to impose stricter measures as a result. The extent of these new lockdowns need to be closely monitored given the potential to severely impact the economy along with consumer and investor sentiment. However, on the positive side, the vaccine rollout has now been initiated in most countries and new vaccines and treatments are also in the approval process, which does offer considerable light at the end of the tunnel.

The team expects a strong start for the primary market in 2021 before blackout periods commence later in January. The portfolio managers will examine Q4 earnings releases closely to see the impact of increased restrictions in many countries in late 2020. The team continue to look for interesting opportunities in the credit markets and will look to take a slightly more pro-cyclical approach, albeit in a cautious manner.

Rolling Performance	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	29/12/2017 - 31/12/2018	30/12/2016 - 29/12/2017	31/12/2015 - 30/12/2016
NAV per share inc. dividends	5.73%	11.94%	-1.41%	14.56%	8.20%

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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