TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 30 November 2021

Market Commentary

November was volatile for markets, with central banks and the new Covid-19 variant harming investor sentiment. The S&P 500 finished the month down by -1% after a positive performance of nearly 2% earlier in the month. European markets experienced a similar fate, with the EuroStoxx50 initially up by around 3.5% before closing the month lower by -4.42%. In credit, the iTraxx Xover index was 21bps tighter in the early part of November but ended the month 27bp wider at 288bps.

The underlying driver of sentiment remains rates and central bank policy. First, the Fed's Open Market Committee announced it would begin tapering at a pace of $15bn per month, in line with market expectations. However, a continual flow of hawkish comments from Fed members followed, and the FOMC minutes suggested some members perceived inflation as not purely transitory as previously reported. In addition, Chairman Powell, who was renominated as Fed Chair, commented at the Senate committee that the US economy might require a faster pace of tapering to give the Fed more flexibility for rate hikes next year. Likewise, he also reflected that retiring the description "transitory" regarding US inflation might be wise.

Unlike the Fed, the Bank of England didn't deliver on what the market was expecting. After much anticipation of a rate hike at the November meeting, the Monetary Policy Committee kept rates unchanged after 7-2 vote, with Governor Bailey saying it was a close vote. Accordingly, it appears the MPC members wanted to wait for more labour data after the end of the UK's furlough schemes before making a change. Gilts tightened post the meeting, with the five-year gilt closing the day nearly 20bps tighter.

Towards the end of the month, news from South Africa regarding a new variant of COVID-19 led to a sell-off in risk assets, bolstering demand for Government bonds. The benchmark 10-year US Treasury tightened from 1.64% on Thanksgiving to close November at 1.45%. Meanwhile, 10-year gilts closed the month at 0.83%, having been 1.04% a week earlier and despite an eye-watering CPI print of 4.2% (with core CPI at 3.4%). In addition, some countries took steps to re-introduce restrictions to curtail the spread of the virus. As a result, risk assets will likely remain volatile until pharmaceutical companies determine how effectively vaccines might deal with the Omicron strain.

Elsewhere, the US and several other countries released oil from their emergency reserves to help curtail the rapid increase in energy prices. Also, tensions between the UK and Europe increased on various fronts, from fish to the migrant crisis.

Portfolio Commentary

The uptick in market volatility subdued the new issue flow in what is typically the last issuance period of the year. As a result, the team participated very selectively in new deals, only where they saw significant value on offer and maintained discipline regarding pricing. In the secondary market, the team took a similar approach and were very selective, using the pockets of volatility to top up their favourite names at the margin.

Due to the increased expectations of monetary policy changes and rising yield curves, the PMs took the prudent decision to implement a sterling interest rate hedge during the month to reduce the future duration sensitivity of the portfolio.

It was a challenging month for risk assets as most posted negative returns with the Coco index and US high yield underperforming (-1.00% and -1.03%, respectively). European high yield and emerging markets were down -0.60%, and -0.56%, respectively, whilst Sterling high yield fared slightly better (-0.30%).

Given that backdrop, the fund returned -0.46% net of fees during November.

Market Outlook and Strategy

Everyone will be keeping a close watch on any news regarding the spread of the new Covid-19 strain and if it leads to an uptick in hospitalisations and the effectiveness of existing vaccines.

Away from that, the final central bank meetings of the year will be critical, along with the accompanying rhetoric from CB members. Recent commentary from Fed members suggests that there could be an increase in the pace of tapering, allowing them to finish by the end of Q1 2022 and giving them the flexibility to raise rates soon after if required. Market expectations for a rate hike from the Bank of England have changed over the month. Initially, the market expected the Bank of England to hike in December after November's postponement. However, Omicron has reduced this probability, and we will closely scrutinise the December 16th meeting.

Participants expect a quiet primary market, but the team will continue to take advantage of pockets of volatility in their preferred bonds.

Rolling Performance	30/11/2020 - 30/11/2021	30/11/2019 - 30/11/2020	30/11/2018 - 30/11/2019	30/11/2017 - 30/11/2018	30/11/2016 - 30/11/2017
NAV per share inc. dividends	8.49%	5.76%	9.48%	-0.59%	16.48%

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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