TwentyFour

Select Monthly Income Fund

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Market Commentary

The Russian invasion of Ukraine and central banks' attempts to address the high levels of inflation brought about by the covid-stimulus packages, supply-chain disruptions and the commodity-price shock emanating from the Ukraine-Russia crisis dominated market headlines in March.

Equity markets posted mixed performance, with the S&P-500 closed up 3.6% for the month while the EuroStoxx-50 finished marginally down by 0.56%. Fixed income was volatile as risk-free rates moved higher on the back of an expected pick-up in monetary policy. However, credit spreads partially regained some lost ground towards the end of the month, with the Xover index closing 7bp tighter for the month.

The west increased sanctions on Russia following increasing reports of atrocities. As a result, volatility in credit became heightened. Early hope of a diplomatic breakthrough precipitated a mini-rally in risk assets, but this quickly ran out of steam as it became clear the two sides were some way from a workable agreement. Moreover, Putin announced that any payments for Russian gas would have to be in Rubles, an announcement immediately rejected by his European counterparts. These exchanges cast an ominous cloud over the introduction of full sanctions against Russia and the huge effect potentially wrought on the Eurozone economy.

The disruption to commodity markets increased inflation concerns, helping the 10-year. Meanwhile, while risk markets endured volatile days, they finished the month close flat, given the situation had not materially changed after the sell off experienced at the end of February.

Central banks met in March after some historically high inflation prints. With US CPI at 7.9% year-on-year, the Fed began its hiking cycle at the March meeting, pointing to seven rate hikes in 2022 and Fed Funds Rate reaching 2.75% in 2023. However, these projections represented the 'median member', and there was a significant variation between voting members of the FOMC. However, the projections were much more hawkish than market expectations. As a result, the curve shifted up, especially in the short end, resulting in the curve flattening and the 2-10 yield curve briefly inverting by the end of the month.

Meanwhile, the ECB adopted a surprisingly hawkish stance, reducing the size of its Asset Purchase Programme and signalling the programme might end in Q3 – a move that possibly increases the likelihood of rate hikes this year. Finally, the Bank of England made its third successive hike in March, taking rates to 0.75%. Nonetheless, it could be described as a 'dovish hike' as the Monetary Policy Committee warned of a cost of living crisis in the UK and alluded to the market getting carried away with the number of hikes.

Portfolio Commentary

The team took advantage of the recent credit spread moves in financials and high yield names, which are currently trading at desirable levels as the market digested the situation in Ukraine. Towards the end of the month, the primary market began to re-open, and the team took part in higher quality new issues offering good relative value.

In March, risk-off assets sold off across the board, with US Treasuries returning -3.0%. Meanwhile, UK Gilts and Bunds both returned -2.18%. Even though spreads came in, risk assets still produced negative returns due to the underlying government bond selling off. US high yield and CoCos returned -0.93% and -0.63%, respectively. Meanwhile, European high yield produced marginally negative returns of -0.12% and UK high yield produced flat returns for the month.

Against that backdrop, the Fund returned -0.09% for the month.

Market Outlook and Strategy

Market sentiment will closely align with developments related to Ukraine, with close attention on the application of full sanctions and the potential switching off of Russian gas exports into Europe.

In addition to key economic data, the team will pay particular attention to central bank rhetoric; future monetary policy needs to be balanced against the continuing headwinds of inflation and the knock-on effects of the current supply-side shock while maintaining economic growth.

The portfolio managers will continue investing selectively in relative value opportunities, particularly in those companies that exhibit pricing power in the current inflationary environment. In addition, the team will not invest in names with direct or material indirect exposure to the crisis and will seek to improve the portfolio's overall credit quality. Finally, the portfolio managers remain wary of interest rate duration., believing inflationary pressures remain to the upside.

Rolling Performance	31/03/2021 - 31/03/2022	31/03/2020 - 31/03/2021	29/03/2019 - 31/03/2020	29/03/2018 - 29/03/2019	31/03/2017 - 29/03/2018
NAV per share inc. dividends	0.79%	36.85%	-13.55%	0.76%	10.15%

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.

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.

Fund Managers

Charlene Malik
Portfolio Management, industry experience since 2012.

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

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

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

Gary Kirk
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Further Information

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