TwentyFour

Select Monthly Income Fund

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Market Commentary

June was a very weak month as a higher-than-expected US inflation print led to risk assets selling off, due to fears that inflation had yet to peak and that central banks would be challenged to bring it back down more quickly. Subsequently, the S&P 500 declined by 8.4% for the month and the EuroStoxx 50 finished 8.8% down. In fixed income, the iTraxx Crossover index (a proxy for high yield bonds) moved 141bp wider for the month, ending up at 578bp. Rates were also volatile with the 10-year US Treasury yield starting the month at 2.85%, peaking mid-month at 3.47% and closing June at 3.01%.

The May US consumer price inflation (CPI) number released in the first week of June surprised dramatically to the upside. Month-on-month CPI came in at 1% vs. an expected 0.7%, while the year-on-year headline number was 8.6% vs. an expected 8.3%. Price increases were broad-based with rents, used cars and airline fares all rising, the latter jumping 12.6% for the month. The release dashed any hope that inflation had peaked in the US, prompting a sell-off in rates as additional rate hikes were priced in but also in risk assets. In addition, the lowest University of Michigan Consumer Sentiment Index number on record (50.2) added to the pain in both credit and equities.

Prior to the CPI reading markets had priced in a 50bp hike for the Fed's June 14-15 meeting, but after the data sources suggested policymakers were contemplating a 75bp hike, which materialised to take the Fed Funds rate to 1.5-1.75%. In addition, a new set of dot plots was also released showing a considerable change in forward guidance from just two meetings prior, with the median estimate for Fed Funds at year-end 2022 increasing from 1.875% to 3.375%. Elsewhere the Fed released economic forecasts which saw its GDP growth estimate revised down to 1.7% for the year, while its inflation and unemployment estimates for the year were revised up to 5.2% (PCE index) and 3.7% respectively, though the latter notably remains incredibly low.

Rates reached their peak in the US during the Fed meeting, with the 10-year USTs reaching a yield of 3.47% and eight more hikes being priced in for the remainder of the year. Nonetheless, as the market digested the amount of tightening priced in for the US economy recessionary fears came to the fore, which saw rates across the board rally towards the end of the month.

The European Central Bank at its June meeting confirmed that net asset purchases would stop by the end of the month, and guided towards 25bp and 50bp hikes at its July and September meetings respectively. However, after the meeting periphery sovereign spreads ballooned wider with the spread between Italian BTPs and German Bunds reaching almost 250bp. This prompted an emergency ECB meeting the following week, where it was announced the Governing Council would be exploring an 'anti-fragmentation' tool.

The Bank of England as expected raised interest rates by 25bp to 1.25%. Governor Andrew Bailey indicated at the press conference that the BoE would "act forcefully" in response to persistent inflation. This rhetoric was shared by the Fed chair Jerome Powell, ECB president Christine Lagarde and Bailey himself at the Sintra conference, with Powell suggesting that not fighting inflation head-on would result in "the worst pain."

Portfolio Commentary

The team participated in a couple of new issues which came with large new issue premiums, and continued to do bottom-up relative value switches taking advantage of some technical selling in certain names which created something of a price vacuum.

There was very weak performance across all credit indices. European HY and US HY returned -7.01% and -6.81% respectively, while EM and CoCos were down -6.42% and -5.91% respectively. Risk-off markets were also all negative; Gilts and Bunds were down -1.95% and -1.67%, with USTs faring slightly better at -0.72%.

Against that backdrop, the Fund returned -5.69% during May.

Market Outlook and Strategy

The team will continue to follow inflation indicators very closely, this being the leading barometer investors are following. The managers believe any sign of the fight against inflation being won could lead to a quick change in sentiment considering the extremely attractive levels in fixed income currently available.

The managers expect market sentiment will remain fragile over the summer and that general market outflows will remain negative until the inflationary trend is seen to be turning. The forthcoming central bank meetings at the end of July (and first week of August for the BoE) will therefore be critical and watched as keenly as ever, as will the ongoing saga of Russian gas supplies to Europe and the proposed changes to US tariffs on Chinese goods.

Rolling Performance	30/06/2021 - 30/06/2022	30/06/2020 - 30/06/2021	28/06/2019 - 30/06/2020	29/06/2018 - 28/06/2019	30/06/2017 - 29/06/2018
NAV per share inc. dividends	-11.88%	20.46%	-2.09%	4.83%	5.28%

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
Partner, Portfolio Management, industry experience since 1988.

George Curtis
Portfolio Management, industry experience since 2012.

Mark Holman
Partner Portfolio Management, industry experience since 1989.

Pierre Beniguel
Portfolio Management, industry experience since 2010.

Further Information

TwentyFour ASSET MANAGEMENT

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis

Numis Securities
Sam Murphy
Tel. 0207 260 1232
s.murphy@numis.com

Further Information and Literature:
TwentyFour Asset Management LLP

T. 020 7015 8900
E. sales@twentyfouram.com
W. twentyfouram.com

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