TwentyFour

Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

September was yet another weak month for markets, with first US inflation data coming in higher than expected and then later in the month the UK's 'mini-Budget' sparking a mini-crisis, with Gilt yields spiking and broader markets joining the sell-off. The S&P 500 equity index subsequently found new year-to-date lows in September and fell 9.3% during the month, while the Eurostoxx 50 fell 5.7%. In fixed income, government bonds sold off aggressively with the bellwether 10-year US Treasury ending the month 63bp higher at 3.83%, though it breached 4% when the volatility in Gilts was at its worst. The 10-year Gilt ultimately finished the month 129bp higher, with expectations for UK base rates hitting 6% at one stage, while the iTraxx Crossover index widened from 588bp to 641bp.

US inflation was the main market driver early in the month as the headline September release came in at 8.3% year-on-year vs. 8.1% expected, leading to a broad sell-off in risk assets. The US yield curve also shifted higher as more Fed rate hikes were priced in, and as a result the market saw an increase in the chances of a hard landing. However, there were encouraging signs of lead indicators showing inflation will come down, such as Brent crude oil falling to $84 and unemployment increasing from 3.5% to 3.7%, suggesting the labour market beginning to loosen.

In the UK, as expected, Liz Truss won the Conservative Party leadership election and so was appointed Prime Minister. Her new finance minister, Kwasi Kwarteng, unveiled a 'mini-Budget' which surprised markets as it included more (unfunded) tax cuts than expected. This fear of additional inflationary and supply pressure led to a sharp sell-off in both sterling and Gilts, which was made worse by collateral calls for UK pension funds running liability driven investment (LDI) strategies. With Gilt yields spiking by 140bp in three days, the Bank of England intervened to calm markets by announcing a short term operation to buy Gilts with a duration over 20 years, while the government belatedly moved to soften its stance resulting in UK assets reversing some of the negative moves.

At the beginning of the month Russia announced that gas would stop flowing through the Nord Stream pipeline to Europe. However, European gas prices actually fell over September, a sign of how much was priced in previously to the market as well as Europe's good work in increasing storage and alternative energy supplies. In addition, various countries put energy packages in place to cap prices, while the European Union mooted plans to intervene in the gas and oil markets.

The ECB, the Fed and the BoE all met in September. The ECB hiked by 75bp as expected and many members came out after the meeting to suggest that this was not the end of sizeable hikes. The Fed also hiked by 75bp as expected and released its new set of Dot Plots, which increased the median dot for terminal rates in 2023 from 3.75% to 4.625%, putting more upward pressure on the US yield curve. Finally, the BoE hiked by 50bp with the market expecting either 50bp or 75bp. This decision to the lower side, it could be argued, exacerbated the following sell-off in long end Gilts after the mini-budget revealed the next day, as market concerns on UK inflation increased.

There were (sham) Russian referendums in four Ukrainian territories, which resulted in subsequent annexations, though the Kremlin admitted they didn't have exact borders for the regions. Meanwhile, Ukraine has made more gains in certain regions and this has led to some Russian insiders openly questioning whether the use of low-yield nuclear weapons would be appropriate. In Italy, the right wing coalition led by Giorgia Meloni's Brothers of Italy won a majority in the general election; this was not a market mover as Meloni has pledged to follow much of Mario Draghi's previous fiscal plan.

Portfolio Commentary

There were very few new bond issues for the managers to consider due to the market conditions, though the team continued to conduct bottom-up relative value switches.

Risk-off markets were down for the month with US Treasuries and Bunds returning -3.75% and -3.59%, respectively, but Gilt losses outstripped both at -8.46% in September. In risk markets, US and European high yield bonds returned -4.02% and -3.99% respectively at the index level, while UK high yield underperformed these at -6.69% and COCOs returned -6.68%. Emerging markets returned -5.31% in September.

The Fund returned -7.82% for September. CLOs and Bank AT1s were the major detractors, down 2.37% and 2.01% respectively, while Insurance contributed -1.48%. In a weak month across asset classes and sectors, ABS was the best performer at -0.05%.

Market Outlook and Strategy

The main market driver continues to be US inflation and so all eyes will be on October's Consumer Price Index (CPI) data release. The team will follow this print and other lead indicators to assess the inflationary trend. Elsewhere, with winter approaching in Europe it will be important to monitor the gas situation and any potential knock-on effects there. Elevated market volatility looks set to remain, however the starting yields in fixed income are now extremely attractive on a medium term horizon.

The team remain wary of volatility and will therefore keep liquidity elevated, as well as looking to continue to increase the interest rate duration of the Government – Rates bucket if they see occasional rises in US Treasury yields. Elsewhere, from a bottom-up perspective the team will continue to monitor all names and conduct any relative value switches available.

Rolling Performance	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	28/09/2018 - 30/09/2019	28/09/2017 - 29/09/2018
NAV per share inc. dividends	-18.94%	14.94%	2.53%	5.16%	3.47%

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

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