TwentyFour
a boutique of Vontobel

Fund Commentary | 30 December 2022

TwentyFour Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

The volatility of 2022 continued into December as a weak month followed a very strong November. Hawkish signals from the Fed and the ECB lead to a return of -5.9% for the S&P 500 and -4.3% for the Euro Stoxx 50. In fixed income, the iTraxx Crossover index widened from 459bp to 474bp, and the 10-year US Treasury drifted higher by 26bp to finish the year at 3.87%.

US inflation, the closest followed economic data of 2022, surprised to the downside. The 7.1% headline print (vs. 7.3% expected) was the lowest of 2022, down from the June peak of 9.1%, while the core figure was also below expectations at 6% (vs. 6.1% expected). US jobs data however was still very strong, with non-farm payrolls coming in at 263k (vs. a 200k estimate) and unemployment remaining stubbornly low at 3.7%. The tight labour market was an area that the Fed chair, Jerome Powell, had highlighted as a worry, and Average Hourly Earnings coming in at 5.1% would not have eased these concerns.

Indeed the Fed, though shifting down the size of its hike to 50bp, remained hawkish at its December meeting. Powell stated that there was still a "ways to go" in the fight against inflation, and the latest set of 'dot plots' revealed 17 of the 19 FOMC participants saw the Fed Funds rate at above 5% by the end of 2023, maintaining the message that rates will be raised further and then held. The market is currently pricing in a terminal rate of around 5% by Q2 2023, but it is also contradicting Fed guidance by pricing in two cuts in the second half of 2023.

The ECB also took a hawkish stance at its December meeting, raising rates by 50bp to leave the deposit rate at 2%, the highest since 2009. The ECB also pointed to significant rises to come and outlined its quantitative tightening (QT) programme, with holdings set to decline by €15bn per month from March. The reason for this hawkish stance stemmed from ECB official inflation projections rising across the board, with 6.3% expected for 2023 and 3.4% for 2024 (up from 5.5% and 2.3% respectively three months earlier). Immediately after the meeting, German Bund yields sold off by 14bp and Italian BTP yields rose by 29bp. Finally, the Bank of England also hiked rates by 50bp as expected to a policy rate of 3.5%, though interestingly two voters wanted no change at all in the policy rate.

Elsewhere, China continued the huge rollback of its 'zero-COVID' policy towards the end of 2022 as authorities look to spark growth for 2023. This was a big tailwind to regional markets, however energy prices remained fairly subdued in response.

Portfolio Commentary

The new issue market was subdued in December, as is usual for the time of the year. However, the portfolio managers conducted relative value switches across the portfolio.

At the market level, risk-off markets saw negative returns across the board in December. US Treasuries were -0.52%, while Bunds and Gilts underperformed returning -3.83% and -4.42% respectively. In risk markets European high yield was -0.74% and US high yield was -0.75%. Meanwhile, UK high yield and CoCos saw a positive return of 0.08% and 1.38% respectively.

The Fund itself returned 0.83% for the month, with the biggest contributor being CLOs followed by insurance and emerging markets. The only slight detractors in December were US high yield and non-AT1 banks.

Market Outlook and Strategy

Central banks will continue to be the main focus in 2023 as the journey to terminal rates is laid out. Inflation will of course remain a key focus, however unemployment and tight labour markets will get closer attention as this may lead to very sticky inflation and hence higher rates for longer. New issuance is expected to be high at the start of 2023, due to lower than expected primary supply in 2022.

The portfolio managers will look to take advantage of any new issue premiums that come in the primary market, while continuing to conduct relative value switches.

Cumulative Performance					Annualised			
	1m	3m	6m	1y	3y	5yr	10y	Since Inception*
NAV per share inc. dividends	0.83%	7.43%	0.08%	-12.92%	-0.35%	1.78%	N/A	3.82%

Discrete Performance	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
NAV per share inc. dividends	-12.92%	7.48%	5.73%	11.94%	-1.41%	14.56%	8.20%	2.81%	N/A	N/A	N/A

Past performance is not a reliable indicator of future performance. The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. *Inception date: 10/03/2014.

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.

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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