TwentyFour
a boutique of Vontobel

Fund Commentary | 31 January 2023

TwentyFour Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

Markets got off to the strongest start to a year since 2019 in January, after a number of issues that had driven sentiment in 2022 started to ease. The S&P 500 equity index returned 6.3% on the month, while the Stoxx Europe 600 had its best January since 2015 and returned 6.8%. US Treasuries posted their best month since March 2020 with a return of 2.8% amid a general compression in yields, while the iTraxx Crossover index tightened 60bp to 414bp.

Starting in Europe, after what was a decidedly hawkish meeting from the European Central Bank in December, gas prices continued their significant decline from the highs thanks to the combination of a warmer winter and effective management of liquified natural gas (LNG) flows by European economies. With lower gas prices came better growth forecasts, and an expectation that Europe would probably stave off a recession over winter. Lower gas prices have of course also filtered through to inflation, with the headline rate dropping to 8.5% year-on-year in January from 9.2% in December, though core inflation remains at record highs (5.2%). ECB-speak through the month remained hawkish, in line with comments in December, but given the elevated core print it is expected to push ahead with a 50bp hike in February.

Turning to the US, the recent turn in sentiment continued its positive momentum as headline inflation in January came in -0.1% month-on-month, with the YoY number now a full 260bp below its June peak. The market has battled hard against the Federal Reserve's insistence that rates need to go above 5% and stay there for a meaningful period of time. Interest rate swaps are now pricing in a peak US base rate of just below 5%, and probably more importantly pricing in a significant number of cuts in 2023 and 2024. With the December FOMC meeting minutes pointing to a nervousness around financial market conditions loosening too much, it will be interesting to see how Jerome Powell pushes back on market pricing at the upcoming meeting on February 1. After a sharp rally at the beginning of the month (10-year yields were down 42bp in the first 12 days of the year), USTs have traded in a tight 17bp range, struggling to sell off even after the strong Q4 2022 GDP print (2.9% annualised growth) published January 26.

Given China's surprisingly rapid end to its 'zero-COVID' policy, growth forecasts for the world's second largest economy were revised up at the back end of last year, and financial markets responded in kind, with the Shanghai Composite stock index up 5.4% in January. Industrial metals have also performed since the abandonment of the policy in November, with copper rising 10.9% in January alone and bringing with it concerns that a Chinese re-opening might prove inflationary, though oil prices declined slightly on the month.

Portfolio Commentary

The new issue market began the year on the front foot and the portfolio managers continued to conduct relative value switches within the portfolio.

Markets saw positive returns across the board, with US Treasuries posting returns of +2.8%, in line with the return from gilts and slightly ahead of the return from bunds (+2.4%). Credit also performed strongly, with high yield returning anywhere between 3.1% (Europe) and 4% (US). Subordinated financial saw the strongest returns, with Coco's returning 4.5% in the month.

From a fund perspective, SMIF returned 3.65% in January, with positive performance across all sectors. The largest contributors to performance were the AT1 and CLO sectors.

Market Outlook and Strategy

The market remains focused on understanding the central bank reaction function, and investors remain vigilant on the path for inflation and growth. Sentiment has improved, with multiple Fed members pointing to a higher probability of a soft landing, but the path to lower inflation will not be a straight line and we expect volatility to remain elevated.

High all-in yields compensate for much of this volatility, even in a lower growth environment, so the portfolio managers expect to remain invested in credit and they continue to see significant value in certain areas of the market such as subordinated financials and CLOs.

Cumulative Performance	1m	3m	6m	1y	Annualised 3y	Annualised 5yr	Annualised 10y	Annualised Since Inception*
NAV per share inc. dividends	3.69%	8.81%	2.75%	-8.82%	0.11%	2.18%	N/A	4.19%

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
NAV per share inc. dividends	3.69%	-12.92%	7.48%	5.73%	11.94%	-1.41%	14.56%	8.20%	2.81%	-0.04%	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
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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