TwentyFour
a boutique of Vontobel

Fund Commentary | 28 February 2023

TwentyFour Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

After a strong rally in most parts of financial markets in January, February marked a return to negative investor sentiment. Renewed inflation fears and a strong labour market in the US lowered the likelihood of a dovish pivot by the Federal Reserve this year.

The month started with markets on a firm footing, helped by the Federal Open Market Committee (FOMC), who hiked interest rates by 25bps as expected. The subsequent press conference from Jerome Powell was seen as more dovish than anticipated, which caused 10yr Treasury yields to drop below 3.4%. However, the non-farm payrolls (NFPs) report changed the tone entirely, with over 500k new jobs created, compared to an expectation of less than 200k.Moreover, the unemployment rate fell to just 3.4%, which was a 53 year low. With the US economy seemingly firing on all cylinders, investors began to debate whether the Fed would ultimately hike above their 5-5.25% median dot plot, while at the same time, discounted the likelihood of interest rate cuts in 2023. As a result, 10yr Treasury yields increased by 25bps in short order. With ISM services and consumer confidence data also coming in better than expected, the mid-month inflation data was keenly anticipated by investors. Ultimately, the month-on-month Consumer Price Index (CPI) data increased from 0.1% to 0.5% and year-on-year CPI fell less than expected to 6.4%, which made it clear that the battle with inflation was not over.

This data caused year-end interest rate expectations to move aggressively higher from 4.4% at the start of February, to over 5.25% by month end. The 10yr Treasury yield also rose by 60bps to almost 4%.

The inflation story worsened in the Eurozone, and while headline inflation fell for the third consecutive month, supported by energy price caps, core inflation continued to rise, hitting 5.3%. This highlighted that the European Central Bank (ECB) has more work to do to get inflation under control. The UK, on the other hand, saw reasonable falls in core inflation, to below 6%, but headline inflation remained very elevated. Despite the challenges in Europe, European equities continued their impressive 2023 performance, with the STOXX 600 gaining almost 2%. Sentiment towards European equities improved as milder than expected weather meant that Europe avoided a full-blown energy crisis during the winter.

Away from the markets, the 24th of February saw the 1-year anniversary of the start of the war in Ukraine, with little hope of a ceasefire and fears of an escalation of the war by Russian forces. In the UK, the government entered advanced negotiations with the European Union to find a solution to the post-Brexit problems in Northern Ireland and on the 27th of February, Prime Minister Rishi Sunak announced that an agreement had been reached. This gained support from most parties, although somewhat muted support in some quarters.

Portfolio Commentary

The new issue market remained active throughout February, with banks being very frequent issuers of debt across the capital stack. The deals continued to be well supported and performed well on the break, although interest rate volatility did weigh on performance by month-end. Activity in the Fund was relatively low, with the portfolio managers adding to a number of existing positions in the AT1 and HY space.

Interest rate volatility weighed on most markets during the month and resulted in the worst February performance for the Bloomberg Global Aggregate since its inception in 1990. Government bond indices bore the brunt of the moves, with the UK Gilt index returning -3.4%, followed by the Treasury index at -2.4% and Euro government index at -2.1%. This also weighed on investment grade indices, which retuned -2.5%, -2.9% and -1.4% in Sterling, Dollar and Euro terms. Risk-on credit indices outperformed in a poor month, with the CoCo bond index returning -1.5%, and the Sterling, Dollar and Euro HY indices returning +1.0%, -1.3% and -0.2% respectively.

The fund returned 1.18% for the month. The biggest detractors were US high yield (-0.13%), followed by Banks – AT1s (-0.09%) and Insurance (-0.06%). The biggest contributors were CLOs (1.25%) and EU high yield (0.19%), ABS – non CLOs (0.08%).

Market Outlook and Strategy

All eyes will continue to be focused on central banks and economic data as market practitioners look for clues to when interest rates will peak. At month-end, 10yr Treasuries tried several times to go above a yield of 4%, but this seemed to be met with a lot of technical support and broad-based buying. It will be interesting to see if this support level can be breached for any reasonable period. The new issue market is likely to remain active and, for the moment, new deals are well supported but further rates volatility could increase pressure on the buyer base.

The team will continue to be highly selective and refrain from adding cyclical sectors as recessionary fears remain elevated.

Cumulative Performance					Annualised			
	1m	3m	6m	1y	3y	5yr	10y	Since Inception*
NAV per share inc. dividends	1.18%	5.79%	3.89%	-5.58%	1.01%	2.48%	N/A	4.29%

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
NAV per share inc. dividends	4.91%	-12.92%	7.48%	5.73%	11.94%	-1.41%	14.56%	8.20%	2.81%	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

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

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