



31 January 2019

TwentyFour Select Monthly Income Fund

Market Commentary

The late December rally carried on throughout January, with risk assets taking heed from a strong US employment report and supportive comments from the Federal Reserve, resulting in the best month for the S&P 500 since October 2015. Uncertainty over the US-China trade negotiations, the US government shutdown and poor economic data from China and Europe helped rates markets perform over the same period.

The stand-off between Trump and the Democrat-controlled House of Representatives over funding for a wall at the Mexican border shut the US government down for 35 days (the longest closure in history), though a temporary resolution was agreed which expires on the February 15. The president has threatened to use his executive power to push through the funding if no deal is agreed with Congress, with both sides citing the need to reach a quick solution as economists estimate that for every week of the closure the economy is impacted by 0.1%.

Trade talks between China and the US took place early in the month and while the rhetoric was upbeat, there was scant detail. At the end of the month US Trade Representative Lighthizer met with Chinese Vice Premier Liu He, again with no concrete resolutions, but the market was encouraged as President Trump said he intends to meet Premier Xi in order to secure a concrete deal by March 1, after which tariffs on Chinese goods will increase to 25%.

In the UK, Brexit dominated headlines with multiple parliamentary votes held over the month. Prime Minister May's government submitted a plan defeated in the House of Commons by a margin of 230, the biggest government defeat ever. The opposition leader, Jeremy Corbyn, predictably called for a vote of no confidence in the government, which was voted down. Parliament did finally agree for May to go back to the EU in order to renegotiate the Irish border backstop, though initial comments from EU officials suggested this would not be considered. Uncertainty persists, with May expected to return to the EU and then report back to Parliament on February 13-14.

Disappointing economic data from China, with the lowest GDP growth reading since 1990 (6.6%) led to a slight stall in the equity rally, with big tech stocks being particularly hit, until Apple released its results and its shares rallied almost 7% on the news.

Italy returned to the spotlight for all the wrong reasons as it reported a declining GDP for the second quarter in succession, its first recession since 2013. Despite this, BTPs still finished the month tighter, with the 10yr at 2.6% having begun 2019 at 2.73%.

Earnings season has so far helped maintain a positive tone, with a number of European banks reporting better than expected numbers. Though we remain in the blackout period, there has been some new issuance, but most of the supply has been focused on the Senior Non-Preferred market as banks look to fill their TLAC/MREL requirements. High yield and AT1 deals have been limited so far in Europe, unlike the US where high yield supply has been buoyant.

January finished on a positive note as the Fed struck a dovish tone, with Chairman Powell removing references to the next hike and instead declaring a "patient" approach to future adjustments. In his press conference, Powell cited downside risks of trade tensions, Brexit, growth in China and Europe, US government shutdown concerns and a net tightening of financial conditions. These comments saw a bull steepening of the yield curve and the S&P 500 rallied by around 1.5%, the first time equities have rallied on a Fed day since Powell took the role.

Portfolio Commentary

With the risk-on tone dominating for most of January, the portfolio managers added to a number of positions early in the month and used the market strength to rotate out of a number of lower yielding bonds, though trading activity was relatively limited overall.

The AT1 market was supported by a number of calls; KBC announced that the KBCBB 5.625% perps would be called on their first call date in March, while BBVA also announced the call of their 7% AT1s. However, the market is keenly waiting to see if Santander will be calling their 6.25% perp (the call window closes on February 12), with most expecting the bonds to be extended.

The market's appetite for risk was apparent as all indices finished January in positive territory. Leading the way was \$ HY which posted returns of +4.52%, with € and £ HY at 2.08% and 1.83% respectively. The CoCo index also had a good month, finishing +3.33% with news out of China supporting the sector, and EM posted returns of +2.78%.

The Fund also performed well, with the NAV up 1.5% (including coupons) during the month.

Further Information and Literature:

TwentyFour Asset Management LLP. Telephone: 020 7015 8900 Email: sales@twentyfouram.com

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Market Outlook and Strategy

The tone remains supportive for credit, but there are unpredictable events that could alter sentiment. Here in the UK, the next key date in the diary is February 13-14, when we see yet another parliamentary vote on the Brexit plan. The likelihood of this passing is uncertain at the moment; a lot depends on the concessions Prime Minister May can get from her EU counterparts. If unsuccessful, some believe we would see an extension of the March deadline for exit, which would likely be supportive for sterling denominated risk assets. However, the chances of a no-deal Brexit and a possible general election cannot be discounted, and hence the portfolio managers maintain a prudent approach until greater clarity is delivered.

Likewise, uncertainty from the US could weigh on sentiment with the government shutdown set to resume on February 15 once the temporary three week re-opening passes, with Trump standing firm on funding for his wall. Any developments on US-China talks will be important as the 90-day trade truce agreed on December 1 comes to an end, with tariffs on Chinese goods set to rise if no agreement is in place. Data out of the US could also have a meaningful impact on markets, as investors look to see if the government shutdown had an effect, and how key outputs could steer the Fed's next move.

Fund Managers



Gary Kirk
Partner, Portfolio Manager, industry experience since 1988.



Eoin Walsh
Partner, Portfolio Manager, industry experience since 1997.



Mark Holman
CEO, Portfolio Manager, industry experience since 1989.



David Norris
Head of US Credit, industry experience since 1988.



Felipe Villarroel
Partner, Portfolio Manager, industry experience since 2007.



Pierre Beniguel
Portfolio Manager, industry experience since 2010.

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.

Further Information



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



Numis Securities
Chris Gook
Tel. 020 7260 1378
c.gook@numis.com

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

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For definitions of the investment terminology used within this document please see glossary at: <https://twentyfouram.com/glossary>

Performance figures are shown in sterling on a mid-to-mid basis, inclusive of net reinvested income and net of the annual management charge and all other fund expenses. 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.

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