TwentyFour ASSET MANAGEMENT

30 April 2019

TwentyFour

Select Monthly Income Fund

Market Commentary

The strong tone continued in April as markets had their best start to a year since 2007 and the S&P reached all-time highs, supported by some key earnings beats, particularly from the tech sector (e.g. Microsoft, Amazon).

The positive headlines continued in the US with first quarter GDP growth of 3.2% vs. expectations of 2.3% (and a Q4 reading of 2.4%). Despite this very strong print, when market participants dug into the composition of the number, they were underwhelmed when the growth was due to an increase in inventories and net exports, while an important component, real private domestic sales, were the weakest in three years. The impact of the strong GDP reading on US Treasuries was therefore limited, and overall, the Treasury market was very stable, with the 10-year trading in a tight range over the month between 2.46% and 2.59% and finishing where it started at 2.50%.

The rhetoric around China-US trade talks was also supportive over the course of April, with a fresh round of talks starting in China on April 30 between US Trade Representative Robert Lighthizer, Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He. As the tone between China and the US improved, relations soured again between the US and Europe, with the former threatening the latter with tariffs on $11bn of imports if the European Union continues to provide subsidies to Airbus. This led the EU to formally say it was ready to start trade talks.

Earnings season was also in full swing and while overall this was a slightly mixed set of numbers, some beats from the tech bellwethers supported risk markets in the US and Europe. However, signs of a global slowdown still remain as we saw the IMF cut its growth forecast to 3.3%, the lowest level since 2009. Conversely, the euro area exceeded expectations for Q1 GDP, coming in at 0.4% quarter-on-quarter vs. expectations of 0.3%. Other data from Europe painted a more bearish picture with a slew of weak numbers; German PPI and factory orders were particularly disappointing (the latter dropped by the most in 10 years) and Italy cut its economic growth forecast to 0.1%. Mario Draghi struck a dovish tone at the European Central Bank meeting, stating that risks were still tilted to the downside and the ECB stood ready to adjust all instruments if necessary. Spanish elections came and went with little fuss, with the center-left PSOE taking 123 seats (176 needed for a majority) and looking to form a coalition. The most likely partnership would be with either Podemos or the Citizens party.

Brexit took something of a backseat this month, when after being granted an extension by the EU to October 31, Parliament took a two week recess. Before this, Members of Parliament marginally voted 313-312 in favour of a motion to ensure a 'no-deal' Brexit would not happen. Noise around Prime Minister Theresa May's potential departure increased as some members of the Conservative Party considered an attempt to change party laws to call another leadership challenge.

Emerging markets were in focus in April as Turkey headed to the polls and President Erdogan's party lost control of Ankara and Istanbul. Given the importance of Istanbul to Erdogan and the narrow loss, the party have called for a recount. The central bank also added negative news as it kept rates unchanged, disappointing the market. Staying with EM, negative news and volatility in Argentina increased with concerns over how President Macri will fare in the country's elections in October amid record-high inflation.

Portfolio Commentary

April was a good month for performance with the portfolio generating a return of 1.98% (NAV per Share, total return), whilst still maintaining a more conservative credit spread duration of only 3.8 years. Supply was relatively subdued with many companies in blackout ahead of earnings releases and Easter holidays, but the new issue market did pick up as month-end approached and the portfolio managers expect this to pick up over the next month given the firm tone in the market.

Activity in the Fund was subdued, though the portfolio managers did participate in a new AT1 issue from Volksbank Wien, the largest of the nine Austrian regional savings banks, which came at an attractive coupon of 7.75%.

Credit indices once again generated positive returns with sub financials leading the charge (Coco index +2.26%) and high yield not far behind at +1.80%, 1.40% and 1.37% for £, $ and € high yield indices respectively. Emerging markets lagged the rally at +0.65% due to the Argentina and Turkey headwinds. Rates didn't fare well, as the Gilt index posted a negative return of -1.64% after giving +3.59% in Q1. In addition, euro sovereigns were largely unchanged at -0.003%, while USTs posted -0.32%.

Market Outlook and Strategy

As central banks actions continue to drive markets, the portfolio managers will keep a watchful eye on meetings, kicking off with the Fed on May 1 as the market will eagerly watch for any signal on the direction of the next move from Chairman Jerome Powell. At the end of April, the market was pricing in a 72% chance of a cut by January 2020, despite the high Q1 growth print.

Brexit headlines are certain to pick up with the UK parliament back from its recess and Prime Minister May likely to attempt another vote on her withdrawal agreement. With the EU granting an extension until October 31, the government has some time to manoeuvre but the portfolio managers will pay close attention to any developments.

With the end of the reporting season in sight, markets will be keeping an eye out for the next driver of sentiment as US equity indices continue to post all-time-high levels and with credit markets having recovered most of the Q4 '18 losses.

Further Information and Literature:
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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

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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.

TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256. Please contact the Compliance Department at compliance@twentyfouram.com for more information.