TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 30 August 2019

Market Commentary

Last month was far from the subdued market activity normally associated with August. Escalating trade wars, geopolitical events and deteriorating economic data combined to create a more vulnerable backdrop to risk markets and a relentless rally in government bonds, resulting in all developed economy government bond markets ending the month sharply tighter.

Tensions increased between China and the US, as President Trump announced further tariffs of 10% on the remaining $300bn of Chinese imports that have so far been left unscathed, effective September 1. The US Treasury also officially designated China a currency manipulator after the Chinese Yuan broke through the key level of 7.0 to the US dollar in response to Trump's additional tariffs threat.

The news wasn't all bad, as the US government announced it would ease Huawei sanctions for a further 90 days, and there were proposals for more talks between the two countries in September. Nonetheless, the heightened divisions led investors to rush to safe havens, resulting in the 10-year US Treasury rallying from 1.89% to 1.50%. The 30-year UST also saw strong demand as it fell below a 2% yield for the first time ever. The US Treasury 2s-10s spread, a key recession indicator, inverted for the first time since 2007 and reached a low of -5.3bp before closing the month at a spread of -1.4bp.

In Europe, economic data continued to deteriorate and political tensions increased. Germany saw its economy contract in the second quarter, posting a negative GDP print of -0.1% quarter-on-quarter, while the August ZEW survey was also disappointing coming at -44.1 versus a consensus of -28.0 (and down from -24.5 in July), representing the biggest decline since July 2016. The poor data and increasing fears of a recession led Germany's finance minister to suggest the country would consider fiscal stimulus if required.

The threat of snap elections in Italy increased as Deputy Prime Minister Salvini, leader of The League party, tried to dissolve parliament in the hope that a general election would be called as recent polls showed his party would win a majority. This led Prime Minister Conte to tender his resignation to President Mattarella, who instead of calling a general election, gave opposition parties time to form a working government. The center-left Democratic Party and former-Deputy PM Luigi Di Maio's Five Star Movement then agreed to form an unlikely coalition, despite their large differences in policies. If a government is formed, there are sure to be question marks over how long it can last, and whether or not it can agree a budget, which is due by December 31. Despite the uncertainty, Italian government bonds rallied strongly, with 10-year yields reaching all-time lows and ending the month at 1%, while the spread to Bunds reached its lowest levels since May 2018.

In the UK, the political turmoil continued with Prime Minister Boris Johnson escalating his no-deal Brexit threats, announcing a prorogue of Parliament. The Queen approved his request to suspend parliament from mid-September to October 14, thereby substantially reducing the time Johnson's opponents will have to block a no-deal Brexit. There has been significant opposition to Johnson's move and this is expected to continue, with MPs returning from summer recess on September 3. The UK Gilt curve inverted for the first time since 2016 with the 2s-10s spread hitting -5.9bp before widening back to close the month +7.4bp.

Argentina's troubles also worsened after its primary elections, where current President Mauricio Macri's market friendly party came a distant second to the coalition of Cristina Fernandez (who is running as Vice-President, given the previous corruption allegations against her). The market took the news very badly, with all three rating agencies cutting their ratings for the country and Standard & Poor's declaring the country in selective default at the end of the month as it looked to restructure $101bn of debt.

Portfolio Commentary

Secondary markets were relatively quiet over the month, with limited opportunity to adjust the Fund composition.

In terms of market performance, the Euro HY index returned +0.69% in the month, with the STG HY index returning +0.39% and the CoCo index +0.43%. The Fund generated a total return of -0.11% for the month.

Market Outlook and Strategy

The portfolio managers anticipate a busy September with several key central bank meetings, further dialogue between China and the US and expectations for high levels of new issuance. The market is pricing in a 100% probability of a cut from both the US Federal Reserve and the European Central Bank, with the latter possibly announcing further measures such as tiering of deposits for commercial banks' reserves, as central banks continue to mitigate the slowdown in global growth.

The portfolio managers will keep a close eye on economic releases to see if data continues to deteriorate, and for signs that tariffs are having an impact on the US consumer.

In the UK, the prime minister will seek concessions from the European Union on the withdrawal deal, while still preparing for a no-deal Brexit. The portfolio managers will look for any developments here as the chances of a no-deal Brexit remain high and a general election is still possible.

The risk of market volatility has clearly increased both in terms of geopolitical concerns, the age of the current cycle and the likely volume of new issuance; this increase in price volatility will be closely monitored by the portfolio managers, who view this as a potential source of suitable assets, particularly at the shorter end of the credit curve.

Rolling Performance	30/08/2019 - 31/08/2018	31/08/2018 - 31/08/2017	31/08/2017- 31/08/2016	31/08/2016- 31/08/2015	31/08/2015- 29/08/2014
NAV per share inc. dividends	4.65%	3.52%	15.37%	2.63%	2.10%

The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and, with the exception of share price performance figures, net of all fund expenses. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the portfolio are purchased and disposed of.

Fund Managers

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

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

Mark Holman
CEO, Partner 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

Further Information and Literature: TwentyFour Asset Management LLP

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