

MI TwentyFour Investment Funds - Dynamic Bond Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

April was a more difficult month for markets, with the 'higher-for-longer' sentiment strengthening, as continued strong macroeconomic data, combined with stubbornly high inflation readings, pushed global yields higher. Treasury yields, which had been slowly moving higher so far this year, rose sharply in response to the strong data, with 10-year yields spiking from 4.2% at the start of the month, to finish just shy of 4.7%, with these moves echoed by UK and European government bonds. The outlook for rate cuts also changed significantly once again, with just one cut now expected from the Federal Reserve (Fed), when between two and three cuts were expected for the year at the start of the month, and almost six cuts were expected at the beginning of the year – this optimism has faded markedly. The higher rates also, finally, negatively impacted on equity markets, with most indices falling by between 3.5% and 4.5%, albeit from near record high levels.

The tone was set by the US at the start of the month, with ISM Manufacturing and Prices Paid Data coming in stronger than the consensus, followed by strong Job Openings and Labor Turnover Survey (JOLTS) and factory orders data. While ISM Services data was weaker than expected, it was followed by employment data pointing firmly to a strong economy, with a 303k non-farm payroll print, compared to an expectation of 214k, and average hourly earnings remaining unchanged at high levels. When inflation data came in hotter than expected, for both headline and core readings, the rates selloff gathered pace and most Treasury bulls seemed to throw in the towel on any significant cuts this year. In light of the strong data, and inflation that was proving to be stickier than expected, Fed officials also began to guide markets towards fewer cuts, with most emphasising the need to be patient "until inflation was moving sustainably towards 2%".

The data in Europe during the month was more mixed, with core inflation continuing to decline, and, although services PMIs continued to show strength, manufacturing PMIs remained in contractionary territory. Importantly, however, and although euro rates weakened in sympathy with US Treasuries, there seems to be consensus from European Central Bank (ECB) officials that data supports a rate cut in June, and markets still expect between two and three cuts by year-end. Similarly, in the UK, economic data was mixed but generally weak. However, inflation continued to fall, and Bank of England (BoE) officials, including governor Andrew Bailey, seemed confident that this trajectory will continue and support rate cuts later this year. However, despite hopes of cuts to come, gilts continued to give back some of the aggressive rally at the end of last year.

Although macroeconomic data in the US remained robust, there were signs of weakness in various segments, with small businesses reporting continued struggles due to high inflation and tight financial conditions. In addition, small businesses reported much lower hiring expectations, almost the lowest reading in a decade, highlighting that although the job market remained tight, higher rates are taking a toll. Subprime delinquencies and defaults for credit cards and auto loans also continued to increase, suggesting that excess savings have been extinguished, for less affluent segments at least.

April also saw an increase in idiosyncratic risks, especially in the high yield sector, as a number of businesses hired advisors to advise on their capital structures. Altice France reversed an announcement it made last year to use the proceeds of sales of non-core businesses to reduce their leverage, and instead tried to force bond holders to the negotiating table and to include them in the deleveraging process by haircutting the bonds. Although the companies in question were already trading at distressed

levels, and these actions are not symptomatic of the market, it highlights the impact that higher yields are having on companies that over-levered on low yields during the post-Covid era of quantitative easing.

Portfolio Commentary

New issues were fairly active during the month, and so were the portfolio managers (PMs). However, given that coupons were generally tightened from initial price talk, the PMs continued to find better value in secondary markets and were relatively quiet in adding new issues. The PMs continued to optimise the portfolio, taking advantage of a fairly liquid market to add bonds with attractive relative value. The focus on high-quality assets was maintained, with high-quality asset-backed securities (ABS) being added, along with a small allocation to AAA rated collateralised loan obligations (CLOs), while the PMs took advantage of the strong bids in AT1s to reduce exposure to the sector marginally. The PMs maintained their rates positioning, holding 9% in 10-year bunds, 14% in 10-year Treasuries and 2% in short-dated Treasury bills.

As mentioned earlier, with rate cut expectations falling and government bond yields moving higher, markets weakened as credit spreads struggled to absorb all of the move higher in yields. The US Treasury index fell by 2.4%, the euro rate index fell by 1.4%, and gilts fell by 3.2%. The more sensitive parts of the market followed suit, with US, euro and sterling investment grade indices falling by 2.3%, 0.8% and 2.0%, respectively, while the euro sub insurance index declined by 0.9%. Higher yielding sectors generally held up better, but these still suffered in the weak markets, especially US high yield, which was down by 1%, while euro and sterling high yield indices fell by 0.03% and 0.10%, respectively. The Contingent Convertible (CoCo) index held up well, declining by 0.50% during the month.

The Fund gave up some of the gains this year, in the weak market, with the NAV declining by 0.8%, with the biggest detractor coming from the rates sector, which was down 0.66%. The insurance sector detracted 0.11% from the performance, while all other detractors were less than 0.10%. ABS continued to perform very strongly, with CLOs contributing 0.19% to performance, and ABS up by 0.02%.

Market Outlook and Strategy

Markets will continue to watch economic data releases very closely and to listen to central bankers for clues about the prospects for rate cuts, with Jerome Powell first up with the Fed's rate decision and Q&A on May 1. We expect Chairman Powell to stick to the script, emphasising the need to get inflation "sustainably" back to 2%, but he could also acknowledge that parts of the US economy are not firing on all cylinders, despite the strong macro data. Our PMs have moved up the ratings curve, taking advantage of the attractive yields available in higher quality names, while taking exposure to high yield corporate bonds lower, as spreads have tightened significantly. The new issue markets are expected to be fairly active again in May, but participation, as usual, will depend on relative value and yield comparisons in the secondary market. Ultimately, our PMs expect further weakness to emerge in the US economy, while Europe seems to have turned a corner and may have bottomed on growth, but inflation will remain the major driver and is expected to be sticky, while slowly moving closer to central bank targets.

Cumulative Performance	1m	3m	6m	1y	Annualised				Since Inception*
					3y	5y	10y		
Class I Acc (Gross)	-0.80%	0.69%	10.40%	10.22%	-0.80%	2.13%	3.20%	4.96%	
ICE BoAML Global Broad Market	-1.90%	-1.97%	4.60%	0.22%	-3.42%	-0.78%	1.03%	1.98%	

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
ICE BoAML Global Broad Market	-2.25%	5.67%	-13.46%	-1.73%	5.30%	6.49%	0.02%	1.97%	3.64%	1.37%	8.07%

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 26/04/2010.

Key Risks

- Limited participation in the potential of single securities
- Investments in foreign currencies are subject to currency fluctuations
- Success of single security analysis and active management cannot be guaranteed
- It cannot be guaranteed that the investor will recover the capital invested
- Derivatives entail risks relating to liquidity, leverage and credit fluctuations, illiquidity and volatility
- Interest rates may vary, bonds suffer price declines on rising interest rates
- Investment universe may involve investments in countries where the local capital markets may not yet qualify as recognised capital markets
- Money market investments are associated with risks of a money market, such as interest rate fluctuations, inflation risk and economic instability
- The Fund's investments may be subject to sustainability risks. The sustainability risks that the Fund may be subject to are likely to have an immaterial impact on the value of the Funds' investments in the medium to long term due to the mitigating nature of the Fund's ESG approach
- The Funds' performance may be positively or negatively affected by its sustainability strategy
- The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers
- Information on how environmental and social objectives are achieved and how sustainability risks are managed in this Fund may be obtained from twentyfouram.com/sustainability

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
Partner, Portfolio Management, industry experience since 2007.



George Curtis
Portfolio Management, industry experience since 2012.



Mark Holman
Partner, Portfolio Management, industry experience since 1989.



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Further information on fund charges, costs and other important information pertaining to the fund can be found in English and free of charge on the fund pages of our website and/or in the relevant offering documents available at www.twentyfouram.com/document-library and/or www.fundrock.com/mi-funds/twentyfour-asset-management/

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