TwentyFour

Select Monthly Income Fund

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Market Commentary

Ongoing volatility characterised risk and rates markets during May due to comments from central bankers, data prints and other market moving headlines. Ultimately, the S&P 500 finished just -0.55% lower for the month after falling ~8% intra-month. Meanwhile, the EuroStoxx 50 posted returns of 1.53%. In fixed income, the US 10 year Treasury yield tightened by 14bp, whilst both Gilts and Bund yields finished higher. Finally, the Xover index widened by 15bp during the month.

The Federal Open Market Committee (FOMC) met at the beginning of May and raised rates by 50bp. The members also signalled that the Fed would start reducing the size of its balance sheet in June. Fed chair Jerome Powell also stated Fed members were not considering 75bp rate hikes, which initially drove a rally in risk markets. However, as the market digested the number of upcoming hikes and the prospect of quantitative tightening, risk assets quickly sold off, accompanied by a sell-off in US Treasuries, with the 10-year yield touching 3.20% intraday. With the release of the US CPI report, which surprised to the upside by showing 8.3% year-on-year inflation against expectations of 8.1%, and headlines of Chinese lockdowns continuing, volatility remained during the beginning of the month.

As fears of a hard landing in the US grew, US Treasuries began to rally from intra-month wides, with investors speculating that the Fed would find it difficult to push through as many hikes as previously thought. Risk assets continued to underperform on growth concerns. The only bright spot for investors was the return of correlations, with US Treasuries finally behaving as a risk-off asset class. The release of the FOMC minutes reinforced the strength in rates, calming investors' fears over the hawkishness of the Fed. While the minutes confirmed the consensus of two 50bp hikes at the June and July meetings, they also indicated that a pause could follow later this year, helping to support the 10-year US Treasury yield, which rallied to 2.75%. Additionally, bullish comments from Brian Moynihan (Bank of America CEO) and Jamie Dimon (JP Morgan CEO) on the strength of the US consumer and the attractiveness of credit in general aided credit markets and resulted in a relief rally as month-end approached.

Elsewhere, the Bank of England (BoE) raised rates by 25bp as expected, but its forecast for a contraction in UK growth during 2023 caused Gilts to rally. However, this reversed towards the end of the month, coinciding with the UK Government's fiscal support package and a refocus on the high levels of UK inflation. There was no European Central Bank (ECB) meeting, but a strong consensus has now formed that net purchases from its Asset Purchase Programme will stop by July, and the ECB will begin their hiking cycle at the July meeting. As a result, the market has priced four 25bp hikes for the Eurozone during 2022.

Portfolio Commentary

The team conducted bottom-up relative value switches and, at the margin, improved credit quality.

The portfolio managers also reduced the Interest rate duration underweight by removing some of the sterling interest rate swap.

US Treasuries outperformed for the month with broadly flat returns (+0.06%), meanwhile Euro and UK Government bonds returned -1.74% and -3.12% respectively. In risk assets, US high yield and CoCo indices produced marginally positive returns (0.25% and 0.05%), whilst European high yield and emerging markets returned -1.25% and -1.33%, respectively.

Against that backdrop, the Fund returned -3.57% during May.

Market Outlook and Strategy

The Fed, ECB and BoE all have meetings in June. The market will closely follow the latest edition of the Fed's dot plots and the rhetoric surrounding policy towards the latter part of 2022. Moreover, upcoming inflation data will be extremely important and closely watched, with market participants continuing to look for a guide as to how hawkish the Fed will ultimately need to be.

The team will continue to extend the duration of the Government rates bucket and will also continue to reduce the sterling interest rate swap. Moreover, as new issuance levels rebound, the portfolio managers will be alert to attractive deals that reopen the market and, in doing so, will perform relative value switches.

Rolling Performance	31/05/2021 - 31/05/2022	29/05/2020 - 31/05/2021	31/05/2019 - 29/05/2020	31/05/2018 - 31/05/2019	31/05/2017 - 31/05/2018
NAV per share inc. dividends	-5.86%	24.60%	-4.12%	2.23%	6.38%

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.

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

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.

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