TwentyFour

Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

August was a volatile month for markets after early strength reversed after the Fed reiterated that their job on inflation was still far from over, and concerns increasing of a Russian gas cut-off to Europe. As a result, the S&P was down 4% and the EuroStoxx 50 was down 5.1% for August. In Fixed Income Xover widened from 511bp to 588bp, having got to a mid month low of 463bp. Meanwhile Government rates sold off, with the 10 year US Treasury moving higher from 2.57% to 3.19%.

Sentiment was positive at the start of the month due to the belief that the Fed had made a dovish pivot in their July FOMC meeting, this was also helped by attractive valuations still available due to the steep sell-off in June. The US CPI release came in lower than expectations with the headline YOY at 8.5% - down from the prior month's 9.1% print and below the 8.7% market estimate. This was helped by falling energy prices, with Oil falling below $90 a barrel – but core CPI was also under estimates at 5.9% YOY (vs 6.1% expected). This gave the market increased confidence that peak inflation in the US was in the past and risk-on assets rallied subsequently.

However, a concerted effort by Fed officials followed to highlight that inflation was still well above their target. This culminated at the flagship Jackson Hole event where Chair Powell sent the clear message that there will be 'restrictive policy stance for some time' and that this may inflict 'some pain to households and businesses'. Consequently, rates went higher with the 10 year US Treasury moving up ~60bp in August to 3.19% and risk assets sold off sharply.

In Europe, the overriding topic was whether Russian gas would be cut off via the Nord Stream 1 pipeline. Another period of maintenance planned by Russia for the end of August led to fears that an total cut off may be imminent. This led to German power trading at 500 Euros/MWH for the first time in history. This stoked inflation and recession fears for Europe, not helped by Germany's producer price index release, which is seen as a good lead indicator of inflation, and rose by 5.3% on the month – well above consensus.

In the UK, the Bank of England raised rates by 50bp in their August meeting, as expected. They also guided towards 13.2% inflation and a long, yet shallow, recession - much of this was already priced in and thus the reaction was muted. The UK's CPI release was higher than expected however coming in at 10.1% vs 9.8% expectation, this coupled with Liz Truss' expected leadership victory resulting in tax cuts resulted in UK Gilts underperforming for the month – with the 10 year moving 100bp higher to 2.80%.

Elsewhere, Nancy Pelosi's visit to Taiwan at the beginning of the month increased tensions between China and the US and led to a short term rally in US Treasuries. Additionally, higher than expected supply in August with issuers taking advantage of more benign conditions led to some headwinds to spreads towards the end of the month as the market struggled to digest the unexpected supply during the summer months.

Portfolio Commentary

The portfolio managers added a few names selectively which had become attractive opportunities as a result of the recent volatility.

At a sector level, risk-off markets produced negative returns across the board with US Treasuries down 2.6% and Bunds down 4.8%, while Gilts underperformed both returning -8.1%. In risk assets, COCOs and US high yield were down 2.6% and 2.4% respectively. European and UK high yield fared slightly better at -1.2% and -1.0% respectively, while emerging markets produced a positive return of 0.8% for August.

The fund returned 0.07% for the month. The top contributors were CLOs at 1.52% and ABS at 0.08%, while the top detractors were bank AT1s at -0.72% and emerging markets at -0.50%.

Market Outlook and Strategy

The team will be closely monitoring the gas situation in Europe, including any cut-off and reactionary supportive fiscal measures from the EU. There are also major central bank meetings in September for the Fed, ECB and BoE which will be very important to assess forward looking monetary policy for the end of 2022 and then 2023. The managers will also follow key economic releases, particularly inflation and employment data.

The team will look to continue adding names with strong credit quality as uncertainty remains high. Additionally, more supply in September may present good opportunities for the managers to conduct relative value switches.

Rolling Performance	31/08/2021 - 31/08/2022	31/08/2020 - 31/08/2021	30/08/2019 - 31/08/2020	31/08/2018 - 30/08/2019	31/08/2017 - 31/08/2018
NAV per share inc. dividends	-11.96%	16.33%	2.04%	4.65%	3.52%

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
Partner, Portfolio Management, industry experience since 1988.

George Curtis
Portfolio Management, industry experience since 2012.

Mark Holman
Partner Portfolio Management, industry experience since 1989.

Pierre Beniguel
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Further Information

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