TwentyFour
a boutique of Vontobel

Fund Commentary | 28 April 2023

TwentyFour Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

After a volatile March that saw the development of a regional banking crisis in the US and the forced takeover of a systemically important bank in Europe, April was surprisingly calm, and, by a few measures, was one of the least volatile months since the pandemic – only five out of 38 non-currency financial assets moved more than 3% in either direction. The MOVE index, which tracks Treasury volatility, was back at levels seen prior to the Silicon Valley Bank collapse, while the VIX index of equity volatility closed the month at 16 points, the lowest level since November 2021.

In the absence of negative news, markets were steady, with small gains across equity and credit markets, while returns in rates markets were more mixed. Investment grade credit returned 0.7% in both the US and Europe, while high yield returned 0.8% and 0.5% respectively, and the CoCo index returned 1.4% over the month. Government bond returns were slightly positive in the US (0.5%), flat in Europe (0.0% return for Bunds), and negative in the UK (-1.9%).

On the macroeconomic front, the response from the Federal Reserve (Fed) and the Federal Deposit Insurance Corporation (FDIC) in March calmed fears of the regional banking crisis in the US developing into something more serious, with deposit outflows across the banks turning positive and quarterly earnings largely beating expectations. First Republic Bank, however, bucked this trend towards the end of the month, showing that the crisis is not yet over. On top of this, US debt ceiling concerns came to the fore in April, with a lower tax take at the end of the financial year leading analysts to bring forward the 'x-date' (the estimated date when the Treasury can no longer pay its bills) amid concerns that a divided congress will find it difficult to come to an agreement.

Inflation data across Europe and the US continued to print significantly above central bank targets, with the UK in particular seeing an upside surprise to April's data and headline inflation yet again above 10% (driving the move in UK government bonds mentioned earlier). We did start to see early signs of a loosening in labour data, however, with the growth in non-farm payrolls in the US declining versus a strong January and February, alongside weaker job opening numbers and jobless claims.

With a slight loosening in financial conditions and inflation that continued to remain robust, terminal rate expectations increased marginally in April. The market is, however, pricing in a number of cuts in the second half of the year, particularly in the US, although the Fed and other central bankers have tried to push back on this given the inflationary environment.

Portfolio Commentary

The Fund returned 1.36% in April, with positive performance across most sectors, the biggest contributors were CLOs (1.11%) and Insurance (0.12%).

The fund managers' asset allocation remained broadly consistent through the month, although the team continued to look for relative value opportunities within sectors, where they can rotate into credits with higher purchase yields while increasing the credit quality in the Fund.

Market Outlook and Strategy

The portfolio managers expect sentiment to remain fragile, particularly after the acquisition of First Republic Bank by JP Morgan post quarter end. The market will be focusing on any impact from the issues in the financials sector on credit conditions, as this, alongside inflation, will drive the reaction function of the central banks.

The portfolio managers believe central banks are close to peak rates, but the question for them and the market is not just when rates will peak, but how quickly they will come down afterwards. The portfolio managers continue to expect a 'softish' landing as their base case, where economies see a mild recession but one that is characterised as having a relatively low default and unemployment rate versus previous recessionary cycles (largely due to strong consumer demand and strong corporate balance sheets). The team will continue to move up in quality, given the attractive relative value on offer in investment grade, particularly in financials, while continuing to extend the interest rate duration in the Fund, primarily via exposure to 10-year Treasuries.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
NAV per share inc. dividends	1.36%	-0.82%	7.92%	-6.41%	7.00%	2.05%	N/A	3.99%

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
NAV per share inc. dividends	2.84%	-12.92%	7.48%	5.73%	11.94%	-1.41%	14.56%	8.20%	2.81%	N/A	N/A

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: 10/03/2014.

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
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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