TwentyFour
a boutique of Vontobel

Fund Commentary | 31 October 2023

TwentyFour Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

October was another difficult month for financial markets, with rates volatility continuing and a significant increase in geopolitical risks. With investor sentiment weaking, and treasuries no longer acting as an automatic safe haven, alternative monetary assets bitcoin, gold and silver benefited the most, being 26%, 7% and 3% higher respectively over the month. Equity markets continued their recent weakness, with the S&P 500 falling 2% in October, its third successive negative month, while the DAX and FTSE 100 were both lower by 3.7%.

The month started with treasuries continuing their recent weakness, and the yield on the 10-year maturity reached almost 4.9% intraday, as strong economic data out of the US (including Purchasing Managers Index (PMI), ISM Manufacturing Index, Job Openings and Labor Turnover survey (JOLTS), and non-farm payrolls, which were all ahead of consensus) depressing bullish sentiment and calling into question whether base rates had yet peaked. Treasury yields pulled back briefly after the terrorist attack in Israel on 7 October, with an investor flight to quality benefiting rates, as fears of a broader conflict in the Middle East grew. In addition, the aggressive sell off in treasuries, which saw a 55 basis points (bps) yield increase between the 20 Sept rate decision and early October, brought a plethora of comments from Federal Reserve (Fed) members, noting that the move in yields was "doing their job for them", and that they could afford to be patient, given that base rates were already restrictive. With speculation that this rhetoric could alter the Fed's interest rate expectations (the dot plot) to the downside, reducing the chances of another hike, the rates selloff briefly found some respite. However, with the strong economic data continuing, and inflation, in particular, remaining elevated, and with confidence that the diplomatic efforts in Israel could prevent an escalation across the region, rates resumed their sell off, and the 10-year maturity breached 5% intraday, on 23 October, a level last seen in 2007. In addition to the strong economic data, there were a number of negative technical drivers also weighing on yields; the large borrowing estimates from the Treasury gained significance, as did the mix of maturities, coupled with notable holders such as China and Japan reducing their holdings, and treasury auctions performing poorly. Furthermore, a term premium returned to yields as investors sought higher compensation for the elevated risks attached to holding treasuries.

Towards the end of the month, the US reported annualised quarter-on-quarter GDP growth of 4.9%, well ahead of the expected 4.5%, and coming on top of very strong retail, durable goods and house sales data. All helped to reinforce the view that the US economy was remaining very resilient, even in the face of the aggressive rate hiking policy. However, although official economic data remained resilient, private data, such as credit card and auto loan delinquencies and defaults, began to move upwards, and the feeling persisted that the US consumer was weakening. In Europe, economic data was very different to that reported in the US, with PMIs remaining weak, retail sales remaining negative and below consensus, and CPI continuing to fall. The European Central Bank (ECB), as expected, kept the main refinancing rate at 4.50% and, although president Lagarde reiterated the higher-for-longer mantra, she did acknowledge that growth was weak and mentioned the ECB was keeping a close eye on financial stability, amid the rise in long-term yields. The weaker data and lower inflation increased expectations that the ECB was close to peak rates, which helped German bunds during the month. While US rates sold off, bunds held firm, with yields marginally lower by the end of the month, the 10-year bund finishing at 2.8%.

In the UK, the economic data, on the whole, came in below consensus, with manufacturing and industrial production especially weak. Inflation, however, remained sticky, although retail continued to report falling food prices and CPIs were expected to drop over the coming months. The weak data also encouraged investors that the Bank of England (BoE) may be close to peak rates and, similar to bunds, UK gilts managed to end the month with only slightly higher yields, with the 10-year at 4.5%. Away from macro-economic data, the third quarter earnings season kicked off in early October, with results once again mostly beating expectations. Bank results were particularly closely followed, with investors looking for signs of consumer weakness. However, the large US banks mostly reported healthy deposit balances, although Bank of America CEO Brian Moynihan highlighted that spending was slowing, indicating that the economy was also slowing. In the UK and Europe, banks reported stellar results, with net interest margins continuing to climb in Europe while having stabilised in the UK. Overall, bottom lines were generally very strong, balance sheets were robust, with most banks reporting lower provisions as non-performing loans (NPLs) stayed low, and capital levels were higher, with banks continuing to look to share buybacks to reward equity investors.

Portfolio Commentary

Activity in the fund was relatively subdued in October, with the primary market being very quiet and many companies in blackout periods due to earning releases. In addition, with yields climbing due to the ongoing rates volatility, companies were not encouraged to come to the market, preferring to wait for more favourable conditions. The government bond sell off weighed on fixed income markets, especially for $ denominated indices, given the poor performance of treasuries, and the US treasury index returned -1.3% for the period, followed by the UK Gilt index at -0.41%, with Euro Govies eking our a positive performance of 0.4%. The movement in rates also weighted on Investment Grade indices, with US, UK and Euro IG returning -1.8%, -0.23% and 0.41% respectively. Higher yielding indices also suffered, as spreads widened after a strong performance over the preceding 6 months; the US HY index returned -1.23%, the Euro HY index was -0.27%, while £ HY managed a positive 0.20% return. The CoCo bond index also struggled due to the rates volatility, with a marginal negative performance of -0.02%. With fixed income markets struggling, the Fund returned -0.13%, helped by the lower correlation to government bonds. The only positive contribution to performance came from ABS, returning 0.03%, while European HY was the biggest detractor, returning -0.10%, followed but US HY at -0.06%.

Market Outlook and Strategy

All eyes will continue to be on the central banks, with the first Fed conference on 1 November. The Fed is not expected to hike, and neither is the BoE a day later, but the commentary from chairman Jerome Powell should, as usual, be interesting, and investors will be keen to hear whether the Fed now considers financial conditions to be sufficiently tight, or whether another hike is still likely before year end. Economic data will also be closely watched and will be a key driver in treasury yields from here – a deterioration in data is likely to be required to stabilise rates and to drive them lower. The PMs continue to think that the Fed are close to peak rates, as are the ECB and BOE, although, for the latter, inflation continues to be uncomfortably high and the fall in CPIs, prophesied by the BOE, do need to materialise if they are to pause the hiking cycle. Overall, the PMs expect to continue to look to focus on relative value switches, but also expect primary markets to remain subdued in the early weeks of November.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
NAV per share inc. dividends	-0.13%	1.46%	6.20%	14.61%	2.93%	3.36%	N/A	4.43%

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
NAV per share inc. dividends	9.21%	-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

- 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
- 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'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.

Pierre Beniguel
Portfolio Management, industry experience since 2010.

Further Information

TwentyFour
a boutique of Vontobel

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis

Numis Securities
Sam Murphy
Tel. 0207 260 1232
s.murphy@numis.com

Further Information and Literature:
TwentyFour Asset Management LLP

T. 020 7015 8900
E. sales@twentyfouram.com
W. twentyfouram.com

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

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