TwentyFour
a boutique of Vontobel

Fund Commentary | 31 October 2024

TwentyFour Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

October was volatile for fixed income markets as a combination of resurgent economic data and the increasing probability of a Trump presidency led to a material sell-off in government bonds. Investors adjusted their expectations to anticipate a slower and more gradual rate-cutting cycle from the Federal Reserve (Fed), which contributed to a 50 basis points (bps) rise in 10-year Treasury yields over the month. Credit performed well as a result of further spread tightening and the continuing strong financial performance from the majority of companies.

Markets started the month strongly, with a significantly better-than-expected US labour report surprising investors and easing fears that labour demand was deteriorating at an uncontrollable pace. The headline non-farm payroll number rose +254,000, which was materially higher than expectations of a +150,000 print. Meanwhile, the unemployment rate fell to 4.1% (4.05% on an unrounded basis), despite investors forecasting the figure to hold firm at 4.2%. The combination of stronger labour data and growing inflation risks, deriving from the rise in oil prices amid the escalating conflict in the Middle East at the beginning of the month, resulted in investors gradually pricing out the probability of a 50bps interest-rate cut by the Fed at its next central bank meeting in November. This was compounded by the US inflation report, which showed the headline Consumer Price Index (CPI) decelerating less than anticipated to 2.4%, while core inflation accelerated to 3.3%, despite the median forecasts of around 3.2%. With progress stalling on the inflation front, the rates sell-off continued through the middle of the month, with investors beginning to price in only a 25bps rate cut by the Fed – a meaningful drop compared to the beginning of the month. Supporting the narrative that the battle over inflation is not yet won, the personal consumption expenditures (PCE) price index rose to a five-month high of 2.7% (on an annual basis), versus expectations of a 2.6% rise. However, the headline number fell to 2.1%, year on year (YoY), representing the lowest rate since February 2021.

Investors also focused on the release of the Fed minutes from the September meeting, which revealed that Chairman Jerome Powell had received pushback regarding the 50bps cut the central bank eventually delivered. Some members highlighted that they would have preferred a smaller cut to allow time to "assess the degree of policy restrictiveness as the economy evolved". Further strong US economic data included robust retail sales figures, which suggested US consumer resilience was still high. The month-on-month figure rose by 0.4%, versus expectations of 0.3%, contributing to a strong 1.7% YoY advance. Off the back of this, the Atlanta Fed raised its GDP growth estimate for the third quarter to 3.4% (annualised), from the previous 3.2% figure. As the month drew to a close, the increasing probability of a Trump presidency drove Treasury yields wider. A Trump victory is widely regarded as being inflationary and conducive to domestic growth, which suggests a higher rate environment over the medium and long term.

Being the only central bank of the 'Big Three' to host a monetary policy meeting last month, the European Central Bank (ECB) announced a 25bps rate cut, taking the level down to 3.25%, which was in line with expectations. The move represents the first back-to-back rate cut of any of them this cutting cycle as President Christine Lagarde recognised there were "probably more downside risks" on inflation, in alignment with the weak CPI data out of the eurozone in recent months. The decision came as headline CPI printed at 1.8% for the month of September, down from 2.2% in August but in line with investors' expectations. Core inflation also edged down from 2.8% to 2.7% as the economic environment in Europe continues to be characterised by declining inflation. The eurozone did, however, post stronger-than-anticipated growth data as third-quarter GDP grew by 0.4% (quarter on quarter). This was above the 0.2% expected rate, with upside surprises across several countries including Germany, France and Spain. Despite this, investors still expect the ECB to cut rates by 25bps at its next meeting, and 25bps in each of the subsequent meetings heading into 2025.

The UK experienced a significant bout of volatility at the end of the month as Chancellor of the Exchequer Rachel Reeves announced the Autumn Budget. There were significant losses among UK gilts across the curve following the announcement. Gilt yields rose materially in the aftermath as investors reacted negatively to the proposals of increased investment spending that will be financed by increased borrowing and higher domestic taxes on companies and individuals. On the macroeconomic front, October's UK CPI release fell well below forecasts, which helped to reassure investors that inflationary pressures were easing. The headline number ticked down to 1.7%, versus 1.9% expected, representing the lowest annual rate since April 2021; core inflation was also its weakest in over three years. The services inflation print was particularly encouraging, falling to 4.9%, from 5.6% previously, which contributed to investors now pricing in a 25bps cut at the next Bank of England meeting in November. The labour market is still going strong, with the three-month annualised rate from June to August (released in October) falling to 4.0%.

Portfolio Commentary

The PMs conducted attractive relative value switches in both the primary and secondary markets throughout the month to ensure that the Fund held strong issuers and an optimal level of duration in bonds. The team was selective in participating in new issues, with primary market activity peaking as issuers looked to launch deals before the US presidential election. The PMs continued to rotate out of single-B CLOs and into double-Bs, as the former roll off, in order to increase the average credit quality of the Fund.

Credit performed significantly better than rates as a result of further spread tightening and the continuing strong financial performance from companies. In HY, the US and European indices returned -0.55% and +0.61%, respectively, while their IG counterparts returned -2.25% and -0.40%, respectively. Banks continued to post impressive earnings, but CoCo bonds were dragged down by the rates move; however, the CoCo index still managed to generate a respectable -0.08% return over the month.

Despite the rates volatility endured throughout the month, the Fund generated a positive total return of +0.80%, benefitting from the strong performance in credit. The largest contributors were CLOs (+0.41%), insurance (+0.13%) and bank AT1s (+0.12%), as all three sectors benefitted from spread tightening and strong fundamental tailwinds. The only detractor from the Fund's performance was the other corporates bucket, which was very marginally in negative territory. All other sectors, including US and European HY (+0.01% and +0.10%, respectively), posted total return gains despite the wider rates move over the month.

Market Outlook and Strategy

Investors will pay particularly close attention to the outcome of the US presidential election at the beginning of November as this could turn out to be one of the main drivers of volatility and the future path of interest rates across major economies. Beyond this, investors will remain focused on how economic data and central-bank commentary evolves as this will likely dictate market sentiment. The soft-landing narrative is widely expected to persist unless there is a sudden downturn in either the labour market or consumer sentiment. However, economies continue to cope well despite the continuation of a higher rate environment.

Primary market activity will likely tail off as the US presidential election looms, but is expected to pick up again following the event. This gives the PMs an opportunity to add new names or top up on existing issuers.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
NAV per share inc. dividends	0.80%	3.45%	8.10%	23.64%	5.65%	6.52%	6.44%	6.08%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
NAV per share inc. dividends	14.82%	17.60%	-12.92%	7.48%	5.73%	11.94%	-1.41%	14.56%	8.20%	2.81%	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 Fund's investments in the medium to long term due to the mitigating nature of the Fund's ESG approach
- The Fund's 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

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Portfolio Management, industry experience since 2012.

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Further information on fund charges and costs are included on our website at www.twentyfouram.com/view/GG00BJVDZ946/twentyfour-select-monthly-income-fund