

# TwentyFour Corporate Bond Fund

This Commentary is a marketing communication for professional UK investors only

## Market Commentary

August was a volatile month for markets, with early strength reversing as the Fed reiterated that its job on inflation was far from done and the threat of Russia cutting gas supplies to Europe grew. As a result, the S&P 500 was down 4% and the EuroStoxx 50 was down 5.1% for August. In fixed income, the Crossover index widened from 511bp to 588bp over the month having got to a mid-month low of 463bp, and government bonds sold off with the 10-year US Treasury yield rising 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 at its July FOMC meeting, as well as attractive valuations still available due to the steep sell-off in June. The US CPI release came in lower than expectations with the headline year-on-year figure 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 as oil fell below \$90 a barrel, but core CPI also came in lower than expected at 5.9%. This gave the market increased confidence that peak inflation in the US has passed 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 Jerome 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". This sent Treasury yields higher 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 a total cut-off may be imminent, leading to German power trading at €500/MWH for the first time in history. This stoked inflation and recession fears for Europe, not helped by Germany's producer price index (seen as a good lead indicator of inflation) which rose by 5.3% on the month, well above consensus.

In the UK, the Bank of England raised rates by 50bp at its August meeting as expected. It also guided towards 13.2% inflation and a long, yet shallow, recession. Much of this was already priced in and thus the market reaction was muted. The UK's CPI release was higher than expected, however, coming in at 10.1% vs 9.8% estimated. This, coupled with the prospect of tax cuts under a likely Liz Truss government resulted in UK Gilts underperforming for the month, with the 10-year yield 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 credit spreads towards the end of the month, as the market struggled to digest the unexpected supply during the summer months.

## Portfolio Commentary

The Fund returned -4.87% in August, outperforming the iBoxx GBP Corporate IG Index (-6.28%) by 141bp. Similarly year-to-date performance is unfortunately negative in absolute terms at -15.44%, but positive in relative terms with the index at -16.52% YTD.

The Fund's underweight duration positioning was the primary driver of this month's outperformance. Spreads rallied over the beginning of the month but that benefit was eclipsed by rising government bond yields and a risk-off tone that took over. The Fund's underweight duration position minimised this impact and its overweight to hybrids outperformed other credit sectors, as hybrid spreads continued to compress from their June wides.

Looking at the attribution for the month, the highest duration sectors fared worst. The Fund's allocation to Gilts contributed -0.76% at the Fund level, but were -11.31% when looked at in isolation. Financials had the largest negative Fund contribution at -2.02% coming from a sector performance of -4.33%, equally split between banks and insurance companies. The corporate hybrid sector held up relative well, losing only 8bp at the Fund level from a -0.92% sector loss, as hybrids continued to be marked higher following the disconnect between fundamentals and pricing in June. Considering the volatility the managers expect later in the year and the potential for downside in September as the market is faced with a deluge of primary supply, the managers took advantage of the stronger market for corporate hybrids to reduce the Fund's exposure by 2% in August, reducing the overall beta of the portfolio. The fund currently has 13% in its liquidity bucket, well positioned to take advantage of reinvestment opportunities.

## Market Outlook and Strategy

The Fund currently yields 5.73% compared to the benchmark's 4.94%. A meaningful pick-up, but this gap has moderated from last month as the managers continue to expect heightened volatility in the months ahead and are seeking to position the Fund defensively against this.

In a world less awash with central bank liquidity, a greater dispersion between credit pricing is to be expected but with likely dislocations as the market adapts to this new reality. This will result in greater rewards for stock picking and the managers look forward to the opportunities that higher yields can bring, though we remain cautious in the near term. The Fund will maintain its risk-off positioning as we observe how investors digest an expected deluge of supply in September, and seek further evidence that core inflation has peaked.

Inflation fears in particular drive the Fund's underweight duration positioning, at 6.0 years vs. the benchmark's 7.1 years. Again, we understand the importance of access to portfolio managers in difficult markets; we will endeavour to be as transparent as possible on our market views but please request more detail or manager meetings through your sales contacts as needed.

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
GBP I Accumulation	-16.97%	4.22%	3.93%	7.59%	0.13%
iBoxx GBP Corporate Bond Index	-18.16%	3.07%	3.90%	9.89%	-0.89%

The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and 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 issued and redeemed. \*Inception date 15/01/2015.

## Key Risks

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- **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.
- Overseas investment will be affected by movements in currency exchange rates.
- The Fund has the ability to use derivatives in order to meet its investment objectives. This may magnify gains or losses.

## Fund Managers

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**Chris Bowie**  
Partner, Portfolio  
Management,  
industry experience  
since 1992.



**Diana Chiu**  
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Management,  
industry experience  
since 2009.



**Gordon Shannon**  
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**Graeme Anderson**  
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since 2011.



**Johnathan Owen**  
Portfolio  
Management,  
industry experience  
since 2018.

## COVID-19 Dealing Instructions

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To better facilitate working environments during Covid-19, investors will additionally be able to subscribe into and redeem from the Corporate Bond Fund using email ([TwentyFourTAInstructions@ntrs.com](mailto:TwentyFourTAInstructions@ntrs.com)). Please note, only one instruction per email will be accepted. Please refer to our website at [www.twentyfouram.com](http://www.twentyfouram.com) for further information.

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Further information on fund charges and costs are included on our website at [www.twentyfouram.com](http://www.twentyfouram.com)

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