TwentyFour
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Fund Commentary | 31 August 2023

TwentyFour Corporate Bond Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

The strength seen in equity and credit markets through most of the summer softened slightly as we moved into August, with 10-year Treasury yields rising rapidly in the opening of the month. This was as the US Treasury announced a schedule of greater-than-expected supply, the country was surprisingly downgraded by Fitch (AAA to AA+), and the ADP payroll number came in significantly above expectations. A lower-than-expected nonfarm payroll print on the first Friday of the month, however, provided some relief, although the 10-year Treasury yield still ended the week 13 basis points (bps) higher at 4.08%.

The steady drip higher in rates continued in the second week of August as the 'soft landing' narrative started to take hold and central bank commentary remained hawkish – particularly from the Fed's Mary Daly – although the US inflation print on the Thursday continued to show a positive trend (headline CPI came in at 3.2% year-on-year versus 3.3% expected), which will be key to determining whether the Fed will hike again in September (the market currently views this as unlikely).

A topic that had been building for a number of months continued to dent sentiment in August, with data out of China showing the weakest exports since February of 2020, alongside some major companies in the real estate sector falling closer to bankruptcy. Emergency steps taken by the People's Bank of China (PBOC) were unable to turn things around, and so economists further downgraded their expectations for Chinese growth in 2023, a trend that could have a significant influence on global growth given China's size.

Contrary to the weaker data in China, however, we saw continued strength in US data through the middle of the month, with retail sales, initial jobless and manufacturing surveys all coming in stronger than expected, leading economists to increase their expectations for third-quarter US GDP (the Atlanta Fed at one point was predicting an extraordinary third-quarter GDP growth estimate of 5.8% annualised).

Stronger growth expectations led some investors to talk of the Fed having to go further than anticipated in terms of base rates, and with that 10-year Treasury yields peaked above their post financial crisis highs, reaching 4.36% intraday on 22 August, before falling into month end, amid weaker growth data out of Europe and a Jackson Hole speech from Jerome Powell that was less hawkish than some were expecting.

Total returns in financial markets in August were generally weaker than in prior months, with equity markets posting negative returns (-1.6% in the US, -2.5% in Europe) in addition to government bond markets (-0.6% for US Treasuries, -0.6% for UK Gilts, although Europe defied this trend, posting returns of +0.3%). Credit markets held up better, with high yield again outperforming, particularly in the US and the UK, where high yield outperformed investment grade (IG) by 100bps and 40bps respectively, returning 0.2% and 0.3%.

Portfolio Commentary

With the Gilt market seeing rising yields across the curve, sterling credit saw capital losses, although spread contractions helped lessen these losses significantly. As such, the Fund was down -0.23%, which compares to a benchmark return of -0.12%. This takes year-to-date returns to +0.99% for the Fund versus +1.25% for the benchmark. With the general level of spread tightening seen this year, the portfolio managers' decision to de-risk the credit portfolio in Q2 has cost relative performance in Q3 slightly more than the steepening bias in the Fund has helped returns.

Looking at the attribution for the month, most sectors were very close to benchmark returns due to the underlying credit spread duration of these sectors being close to benchmark. However, having government bonds in the portfolio was the main detractor in terms of relative performance, with 'off benchmark' positions (Gilts) being down -0.18%, contributing -12bps, which accounts for all of the underperformance.

Financials, in fact, slightly outperformed the benchmark in contribution terms, with Banks just squeezing out a positive performance of +0.01% versus a benchmark return of -0.09%, all in adding a positive contribution of +3bps. Similarly, within Insurance, the portfolio's return of -0.24% outperformed the benchmark's return of -0.39%. However, the portfolio's overweight to the sector meant the overall contribution for the Fund was -1bp compared to the benchmark.

Non-financials were generally ahead of benchmark, with Telecoms generating the best relative return of +3.4bps of contribution gains (portfolio +0.34% versus benchmark -0.37%). Similarly, Utilities saw +3.0bps of contribution gains with a portfolio return of -0.07% versus the benchmark's of -0.70%.

Having de-risked the portfolio in June, the PMs kept broadly similar risk weightings across sectors in August while the Fund had significant inflows that were invested in the first week of the month. With spread levels believed to be starting to look a little tight in some sectors, as economies deal with the continued drags from higher short-term rates and elevated recession risks, the PMs believe a cheaper entry point to re-add credit beta back into the portfolio is near at hand.

Market Outlook and Strategy

The end of extremely cheap money and expanding central bank balance sheets, coupled with geopolitical and economic risk, and now significant questions over bank credit quality (especially for smaller and regional US banks), mean that the PMs believe volatility is likely to remain in risk assets for some time yet.

As such, we believe the combination of lower-than-benchmark duration (-0.75 years versus benchmark) and higher average yield, with high average credit quality, is the best way to address the likely volatility in the broader market we expect over the next few months, while still producing a solid income. This stance is designed to maximise the breakeven yield as much as possible within the constraints of the Fund, meaning, with a yield of ~7% and a duration of 5.6 years, the breakeven yield is some +125bps, which should help provide more protection against rising yields than those that directly track the benchmark.

In these markets, we appreciate having access to portfolio managers is more important than in 'normal' times. Therefore, we would encourage you to reach out to your sales contacts and setup meetings with the portfolio managers to go through anything you would like in more detail.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
GBP I Accumulation	-0.23%	0.63%	-0.93%	-1.71%	-5.26%	-1.00%	N/A	1.02%
iBoxx GBP Corporate Bond Index	-0.12%	1.07%	-0.27%	-0.99%	-5.83%	-0.95%	N/A	0.99%

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
GBP I Accumulation	0.99%	-17.70%	-1.55%	7.56%	9.73%	-2.26%	7.21%	8.48%	N/A	N/A	N/A
iBoxx GBP Corporate Bond Index	1.25%	-18.37%	-3.19%	8.63%	11.03%	-2.20%	5.01%	11.83%	N/A	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 15/01/2015.

Key Risks

- Limited participation in the potential of single securities
- 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
- High-yield bonds (non-investment-grade bonds/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated bonds
- 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 **www.twentyfouram.com/responsible-investment**

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Further information on fund charges, costs and other important information pertaining to the fund can be found in English and free of charge on the fund pages of our website and/or in the relevant offering documents available at www.twentyfouram.com/document-library

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