

# MI TwentyFour Investment Funds

## Dynamic Bond Fund

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### Market Commentary

December was a strong month for markets, as sentiment on the Omicron COVID-19 variant improved and markets digested the hawkish pivots taken by central banks. As a result, the S&P finished the month up by 4.4%, whilst the EuroStoxx50 was up by 5.8% in December. In credit, the iTraxxXover index was 46bp tighter by the end of the month at 242bp.

Market participants were comforted by early data that suggested the Omicron variant of COVID-19 would prove less severe than previous strains. Furthermore, results from initial studies on the efficacy of existing vaccines were encouraging – three doses of Pfizer were seen to be 75.5% effective against any symptomatic disease. At the same time, two doses offer 70% protection against hospitalisation. This positive news overshadowed the introduction of some restrictions in the developed world that mainly concentrated on international travel and the unvaccinated.

The Fed's Open Market Committee (FOMC) took a hawkish tilt in their December meeting, announcing that they would double the pace of tapering to \$30bn a month, meaning it would end QE in March 2022. The new dot plots indicated three rate hikes in 2022, with an additional three in 2023 and two in 2024, representing a significant shift from the previous dot plots from September. Powell also officially dropped the term transitory with regards to inflation. The market processed this shift well, largely because it was extremely well flagged by Powell and a range of committee members in the weeks preceding the meeting.

The Bank of England (BoE) on the margin surprised the market with a 15bp hike to 0.25% - the Monetary Policy Committee acted due to the labour market appearing 'very tight' and forecasting inflation to peak at 'around 6%' in 2022, an increase from their prior level of 5.1%. The small nature of the hike and the fact that the Bank of England was expected to hike back in November meant that the market's reaction was muted. The ECB on the same day announced that it would be ending net purchases of PEPP in March 2022, while transitioning to an increased APP of €40bn a month in Q2 2022, €30bn in Q3, and then to €20bn a month from October. Overall, the market viewed the European developments as a fairly neutral outcome.

In terms of data, the headline US CPI number release of 6.8% was the highest reading since 1982, and a strong household employment report resulted in the unemployment rate falling to 4.2%. The 10-year Treasury yield finished the month 7bp higher at 1.51% – though perhaps this yield would have been higher if not for the technical factors affecting the year-end.

### Portfolio Commentary

Primary issuance slowed in December, as is usually the case, but especially so this year due to the supply already issued in 2021 and the uncertainty derived from the Omicron variant. Sector allocations were unchanged. However, the team took the opportunity to look for relative value switches to optimise the strategy.

It was a strong month for risk assets as positive returns were seen across the spectrum. The US high yield and COCO indices outperformed (+1.88% and +1.36%, respectively). European high yield, Sterling high yield and emerging markets were also up (+0.88%, +0.66% and +0.54%, respectively). Risk off assets produced negative returns due to improved Omicron sentiment largely, reversing the moves of the month before. UK gilts underperformed the most returning -2.80%, with European government bonds and US Treasuries also posting negative returns (-1.45% and -0.57%, respectively).

Given that backdrop, the fund returned 1.00% (Class I Acc Gross) during the month, with three-year annualised volatility at 7.61%.

### Market Outlook and Strategy

The market will still digest the Omicron variant data to assess its impact and establish whether current restrictions will prove sufficient. Furthermore, upcoming US inflation and particularly employment data could be key before the next FOMC meeting, when we may see language from Powell that indicates a March hike. Meanwhile, in the UK, the market has largely priced in a 25bp to occur at the BoE meeting in early February. The team will closely follow data and central bank comments to assess the likely path of upcoming hiking cycles.

We expect strong supply at the beginning of 2022, as companies look to issue before a rising rate environment. Accordingly, the team will selectively participate in the primary market, where they see attractive deals. As previously articulated, the fund will steer away from duration risk. At the same time, central banks embark on tightening, preferring to embrace credit risk but with a slightly more cautious approach than in the prior twelve months. The fund managers also retain their liquidity allocation to allow them flexibility and take advantage of any opportunities.

Rolling Performance	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	31/12/2017 - 31/12/2018	31/12/2016 - 31/12/2017
Class I Acc (Gross)	2.13%	6.55%	9.43%	-2.42%	8.89%

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.

## 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.
- Overseas investment will be affected by movements in currency exchange rates.
- 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



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