MI TwentyFour Investment Funds

Dynamic Bond Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

July was a strong month for markets with sentiment rebounding after a very weak June. In equities the S&P 500 was up 9.1% for the month and the EuroStoxx 50 increased by 7.4%, while in credit the iTraxx Crossover Index tightened from 580bp to 509bp. The risk-on tone was driven by attractive valuations, a strong earnings season and a firmness in rates; the 10-year US Treasury yield finished the month 36bp lower at 2.65%, on expectations that the US Federal Reserve would not be as hawkish as previously feared.

The Fed was closely watched and as expected hiked rates by 75bp in July for the second meeting in a row. The market latched on to the FOMC statement that the US economy had "softened", as well as comments from Fed chair Jerome Powell that the pace of hikes was likely to slow, interpreting these as a signal for a Fed pivot and sparking a strong rally in USTs. This reinforced an earlier rally as market participants began to look at lead indicators of inflation, such as lower commodity prices, even though the headline inflation release in July still came in higher than expected at 9.1%.

Meanwhile, the European Central Bank exited negative rates at its July meeting and surprised markets by hiking 50bp. This was accompanied by the ECB's new anti-fragmentation tool (officially the Transmission Protection Instrument or TPI), however details were fairly vague; the indication was that purchases can be unlimited, but there was also an insinuation that countries must comply with the EU fiscal framework to be eligible for the tool, and that currently no states were suffering from interest costs that were "unwarranted" and thus none were eligible for the TPI.

A collapse of Mario Draghi's government in Italy saw fresh elections scheduled for September and increased volatility for Italian spreads. However, BTPs recovered after the Brothers of Italy party, currently leading the polls, committed to adhering to EU budget rules.

Elsewhere, volatility was elevated in Europe as various headlines emerged suggesting Russian gas supply could remain curtailed. After a 10-day period of gas being turned off for maintenance work, the gas supply ultimately resumed, though at a reduced capacity of 20-40%. EU countries did agree to a 15% reduction of gas demand, with the market viewing this cooperation as constructive.

Overall, second quarter earnings were strong in both the US and Europe and across financial institutions and corporates. The US banks were still positive on the state of the US consumer, with Bank of America CEO, Brian Moynihan, describing them as still "resilient".

In the UK, after Boris Johnson stepped down as Prime Minister, Rishi Sunak and Liz Truss were left as the final two candidates for the top job. At month-end Truss appeared to be the front runner and has promised tax cuts, which could ease pressure on consumers but also spur UK inflation.

Portfolio Commentary

The portfolio managers increased liquidity targets to 18%, allowing flexibility in current volatile times. The holding in 10-year USTs stands at 14%, as the team increased its duration in the 'Government – Rates' bucket to help balance the portfolio as we progress through the economic cycle. Elsewhere, the team conducted bottom-up relative value switches as primary markets remained subdued.

Risk-on markets performed well across the board on better sentiment, with US and European HY returning 6.02% and 5.07% respectively, while the COCO bond index was higher by 4.57%. ABS, as is typical, lagged the recovery in July with CLOs remaining a drag on performance, but this is expected to reverse and CLOs were also moving higher by month-end. In risk-off markets, Bunds were the main outperformer, returning 3.73%, with Gilts and USTs were up 2.73% and 1.66% respectively.

The Fund returned 2.74% in July (Class I Acc Gross). Bank AT1s were the biggest contributor to performance with 0.94%, followed by US HY and European HY at 0.70% and 0.66% respectively. The new firmness in rates markets meant the 'Government – Rates' allocation made a positive contribution of 0.40%, while Insurance added 0.34%. The biggest detractors for the month were CLOs at -0.23% and Emerging Markets at -0.16%.

Market Outlook and Strategy

The team will be looking closely at the upcoming inflation releases and other key economic data, while the Bank of England will also be delivering its rate decision on August 4. Comments from Fed officials at the annual Jackson Hole conference will also be informative in assessing to what extent the Fed is in the process of a pivot. In Europe the ongoing gas saga will be an important driver of performance, and key to whether the Eurozone slips into a recession later in the year.

The managers will keep the Fund's liquidity elevated to maintain flexibility. They will also keep credit duration close to home and ensure that credit quality is robust, as uncertainty remains elevated. The team will continue to conduct relative value switches as the current market volatility continues to present attractive risk-reward opportunities.

Rolling Performance	30/07/2021 - 29/07/2022	31/07/2020 - 30/07/2021	31/07/2019 - 31/07/2020	31/07/2018 - 31/07/2019	31/07/2017 - 31/07/2018
Class I Acc (Gross)	-11.02%	9.22%	2.95%	4.28%	1.31%

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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Portfolio Management, industry experience since 2012.

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