

MI TwentyFour Investment Funds - Dynamic 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

The portfolio managers continued to trim their exposure to non-financial high yield through the month, given the outperformance of the sector and spreads that have tightened over the summer, while increasing their exposure to non-financial investment grade, particularly in the US. In terms of the Fund's exposure to rates, the portfolio managers extended interest rate duration after the US Treasuries sell-off, switching some of their 10-year Treasury exposure to 30-year Treasuries.

Credit reported mixed performance, with HY index returns of anywhere between 0.1 and 0.3% in the month but IG index returns of between -0.8% and 0.1%, depending on the currency. The Fund returned approximately 0.05% on the month, with strong performance from ABS offset by weaker performance in the AT1 sector.

Market Outlook and Strategy

Central banks will remain highly data dependent in the coming months as they near the end of their hiking cycles, with key focus on inflation and labour market data for signs of whether economies will avert a recession.

The portfolio managers continue to view credit as an attractive asset class due to high all-in yields and low default rates, with a continued preference for subordinated financials and ABS given strong fundamental tailwinds combined with elevated yields.

Cumulative Performance	1m	3m	6m	1y	Annualised			
					3y	5y	10y	Since Inception*
Class I Acc (Gross)	0.05%	1.85%	0.26%	1.36%	-1.37%	0.91%	3.48%	4.58%
ICE BoAML Global Broad Market	-0.28%	-0.63%	1.36%	-1.63%	-4.38%	-0.46%	1.27%	1.96%

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
ICE BoAML Global Broad Market	1.71%	-13.46%	-1.73%	5.30%	6.49%	0.02%	1.97%	3.64%	1.37%	8.07%	-0.15%

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 26/04/2010.

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
- Money market investments are associated with risks of a money market, such as interest rate fluctuations, inflation risk and economic instability
- 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 Funds' investments in the medium to long term due to the mitigating nature of the Fund's ESG approach
- The Funds' 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



Charlene Malik
Portfolio Management, industry experience since 2012.



David Norris
Head of US Credit, industry experience since 1988.



Eoin Walsh
Partner, Portfolio Management, industry experience since 1997.



Felipe Villaruel
Partner, Portfolio Management, industry experience since 2007.



Gary Kirk
Partner, Portfolio Management, industry experience since 1988.



Mark Holman
Partner Portfolio Management, industry experience since 1989.



Pierre Beniguel
Portfolio Management, industry experience since 2010.

Further Information and Literature: TwentyFour Asset Management LLP

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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 and/or www.fundrock.com/mi-funds/twentyfour-asset-management/

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