TwentyFour
a boutique of Vontobel

Fund Commentary | 31 May 2024

MI TwentyFour Investment Funds - Dynamic Bond Fund

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Market Commentary

If April was a difficult month for markets, May proved to be almost the exact opposite, with rates rallying, credit spreads tightening and US equity markets recovering from the April dip and hitting new highs.

Starting in the US, strong economic data and persistent inflation had pushed 10-year Treasury yields to year-to-date highs of over 4.7% in late April. At the start of May, the Job Openings and Labor Turnover Survey (JOLTS) data came in much weaker than predicted, while the ISM Manufacturing New Orders index also fell to contraction territory, giving some respite to the markets. Later that evening, the Federal Reserve (Fed) kept rates on hold and, although Chairman Powell was not dovish in his comments, the pace of quantitative tightening (QT) was slowed by more than expected, with Treasury runoff dropping to $25bn per month, from $60bn per month, and with mortgage-backed securities (MBS) kept at $35bn. With the statement being less hawkish than markets feared, and QT slowing significantly, markets enjoyed a relief rally. This gained traction later in the week, when non-farm payroll data fell to 175k, much lower than the 240k expected, while the unemployment rate rose slightly to 3.9%, and average hourly earnings also fell, to 0.2% for the month and 3.9% year-over-year (YoY). This data supported arguments that the labour market was finally loosening and wage inflation was slowly normalising – important factors if the Fed is to cut rates later this year.

The rally continued through mid-month, with inflation data mainly coming in as expected, with the core Consumer Prices Index (CPI) at 3.6% YoY, and monthly headline CPI slightly lower than expected at 0.3%. However, with 10-year yields back down to 4.34%, and a plethora of Fed speakers emphasising the need to be patient to see a clear trend before cutting rates, rates began to retrace some of the rally. Yields then fell again near month-end on further signals that the US economy was weakening and high base rates were lowering economic activity.

Economic data in the eurozone was mixed but with signs of economic activity picking up and growth returning. However, a rate cut from the European Central Bank (ECB) has been fully priced in for June, and there was considerable debate as to how far the ECB would be willing to diverge from the US should the Fed continue to hold firm on rates. Rate cut expectations for the ECB were maintained at between two and three by year-end. In the UK, inflation came in hotter than expected but continued to fall; headline UK inflation at 2.3%, below both the US and eurozone, which would have been seen as unlikely a year ago. However, with GDP growth coming in better than expected, the outlook for rate cuts is also mixed, and just over one cut is expected this year.

Away from macro data, the political scene hotted up, with a general election being announced in the UK for July 4, with the Labour party well ahead in the polls, although both the Labour and Conservative parties are perceived as being fairly centralist, and little economic impact is expected. The Bank of England (BoE) announced that it would cease communications until after the election (although it remains unclear whether anyone noticed!).

The US election season took a bizarre turn, when Donald Trump, who is expected to be confirmed as the Republican party's candidate, was found guilty of 34 felony counts in his 'hush money' case. He is due for sentencing just before the Republican National Convention and is the first former or sitting president to be convicted of a crime, although the guilty verdict didn't seem to have much of an impact on his popularity and he remains slightly ahead in polls for the presidential election.

Portfolio Commentary

Primary markets were relatively quiet in May, with many companies still reporting, although activity is expected to pick up significantly in June. The portfolio managers (PMs) passed on a number of deals, as attractive initial price thoughts (IPTs) were typically tightened significantly before final coupons were set, and better relative value was generally found in secondary markets. The PMs were relatively active in secondary markets, continuing to optimise the portfolio in markets that continue to support credit more so than rates, and with attractive carry supporting returns.

With Treasuries being more supportive, markets recovered from a difficult April and spreads in most indices rallied to tighter levels. Equity markets also continued the strong year, with the S&P index hitting new highs, helped once again by blockbuster results from many tech companies, especially Nvidia.

Helped by the more supportive economic data, the Treasury index enjoyed only its second positive month of the year, returning 1.4%, with gilts returning 0.9% and Euro rates being slightly negative at -0.1%. Investment grade (IG) indices followed suit, with returns of 1.8%, 1% and 0.2% for US, sterling and Euro indices respectively. High yield (HY) indices also fared better than last month, but spreads widened in the US, leaving returns behind the IG index, at 1.1%, while the sterling IG index returned 0.8% and the Euro index saw spreads tighten, and returned 0.9%. The contingent convertible bond (CoCo) index kept up its very strong year, with spreads rallying, and the May return was 1.9%, taking the index through 5% year-to-date.

The Fund was well positioned for the rally, returning 1.44% for the month and with every sector returning a positive performance. The leading contributor was the AT1 sector, contributing 2.62%, followed by asset-backed securities (ABS) at 0.26% and the insurance sector at 0.20%. The lowest contributor was US HY, which contributed 0.04%, with European HY slightly ahead at 0.06%.

Market Outlook and Strategy

Economic data will continue to be the main driver, particularly for rates expectations, with central banks being very much data dependant, and this data being no easier to predict than it has been for the last two years. However, the general consensus is that economic growth will be reasonable, if low, while inflation data will continue to trend towards central bank targets, but possibly continuing lower at a slower rate than both markets and central bankers would like.

Political rhetoric is likely to increase, with European elections early in June, the UK campaigns picking up and the US elections beginning to take central stage. The sentencing of Trump is likely to lead to further incendiary statements from the former President, and divisions within the political system in the US seem wider than ever.

Markets often quieten during the summer months, but new issues are expected to pick up in June, especially in the financials sector, and the PMs expect to remain active. However, major changes are not expected to allocations, with average quality remaining high and returns likely to continue to be driven by carry.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
Class I Acc (Gross)	1.44%	2.30%	7.17%	11.99%	-0.45%	2.40%	3.23%	5.04%
ICE BoAML Global Broad Market	0.90%	-0.12%	1.91%	1.83%	-3.19%	-0.88%	1.02%	2.03%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I Acc (Gross)	3.51%	9.61%	-13.26%	2.13%	6.55%	9.43%	-2.42%	8.89%	5.44%	3.60%	6.81%
ICE BoAML Global Broad Market	-1.37%	5.67%	-13.46%	-1.73%	5.30%	6.49%	0.02%	1.97%	3.64%	1.37%	8.07%

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

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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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