TwentyFour ASSET MANAGEMENT

Vontobel Fund – TwentyFour Strategic Income Fund

Monthly Commentary | 29 October 2021

Market Commentary

October was a challenging month for credit, as volatility in rates weakened investor sentiment. Conversely, the S&P 500 index was up 6.9%, and the Eurostoxx 50 was up +5.0%, supported by primarily strong earnings releases. The iTraxx Xover index was wider by around 11bp, and key rates markets saw front-end yields move higher over the month.

Central bank rhetoric and the subsequent move in rate yields were the key focus, with the BoE and the gilts market stealing the limelight as the market moved forward its expectations of a rate hike by the end of this year. The new BoE chief economist Huw Pill stated that inflation could rise close to, or above, 5% in early 2022, considerably higher than the central bank's 2% target and implied that the November committee meeting was "live" regarding a move in monetary policy. This followed comments from Governor Bailey that he expected inflation to last for longer, and the bank would have to act accordingly. In response, the market is now pricing in a rate hike at the BoE's next meeting on November 4th, followed by another hike at their December meeting. As a result, the 5yr gilt yield widened by nearly 20bp over the month, finishing at 0.83%.

Inflation continued to be the key focus for fixed income participants as the evidence mounts that it may not be merely transitory as some central bankers maintain. Rising energy prices, supply chain disruptions, shortage of labour, infrastructure and transport problems and record lead times on raw materials are all compounding to lead to a continuation of high inflation prints from the summer, which in turn is fuelling a steady increase in average hourly earnings. In addition, US CPI beat expectations, coming in at +5.4% YoY and +0.4% MoM, which added weight to the discussion that the Fed would have to hike rates earlier than expected.

Earnings season kicked off as usual with the US banks. Overall, earnings numbers were solid. However, there were some key misses; Apple, noticeably disappointed versus expectations, with the company citing "larger than expected supply constraints" as a factor, adding to the argument that supply chain disruptions will likely persist well into next year.

There were various other economic data releases over the month. China Q3 GDP was a small miss versus expectations at 4.9% (5.0% consensus), as was US Q3 GDP (2.0% vs consensus 2.6%). US non-farm payrolls also disappointed, coming in at 194k for September versus expectations of 500k whilst average hourly earnings ticked higher to +0.6% MoM and the unemployment rate was lower at 4.8% as the labour force participation rate declined.

Portfolio Commentary

The team reduced their liquidity allocation over the month down to 15.5%, taking advantage of some of the opportunities available amid the volatility in the markets. In addition, the portfolio managers looked to add to some of their preferred positions via the secondary market and participated in some primary deals where they saw good value.

On the risk-off side, the team capitalised on movements in very short-dated UK gilts (the one year bond moved from a yield of 23bp to a peak of 63bp, before coming back off to settle at 55bp at the end of the month) and the value on offer over similarly dated US Treasuries. As a result, the team moved part of their liquidity allocation into gilts, switching out of one-year Treasuries.

Risk assets were generally lower on the month, led by Sterling High Yield, which was -0.91%, whilst European High Yield, Cocos and EM fared slightly better (-0.60%, -0.41% and -0.57%, respectively) with US High Yield the outlier down only -0.18%. Government indices posted mixed performance, with the UK gilt index outperforming, finishing October up +2.26% whilst US Treasuries were essentially unchanged (+0.03%), and European governments underperformed down -0.58%.

Given that backdrop, the fund returned -0.71% during October.

Market Outlook and Strategy

The main events for November will be the key central bank meetings and the subsequent rhetoric and guidance. The Fed meeting is first up, where the market is expecting a tapering announcement. The size and subsequent end date will be essential to establish when a US rate hike may occur. Market expectations are for a $10bn reduction in UST purchases and a $5bn reduction for MBS. Then, and perhaps most importantly, will be the BoE, where the expectation is for a 15bp hike in base rates to 25bp. Accordingly, the team will closely scrutinise commentary from Governor Andrew Bailey to assess whether there is potential for a second hike in December.

Away from central bank activity, the team expect the primary market to remain active in what is typically the last issuance window of the year ahead of Thanksgiving and Christmas holidays. The team will selectively participate where they see solid fundamentals and good value on offer. The portfolio managers will also continue to optimise the portfolio looking for relative value switches in the secondary market. The team has their liquidity allocation to allow the fund to take advantage of any opportunities and provide ample flexibility.

Rolling Performance	30/10/2020 - 29/10/2021	31/10/2019 - 30/10/2020	31/10/2018 - 31/10/2019	31/10/2017 - 31/10/2018	31/10/2016 - 31/10/2017
Class G	6.90%	4.09%	6.64%	-0.40%	9.42%

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. *Inception date 30/11/2015.

Fund Managers

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

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

Mark Holman
CEO, Partner Portfolio Management, industry experience since 1989.

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

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

Pierre Beniguel
Portfolio Management, industry experience since 2010.

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.
- 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.

Further Information and Literature: TwentyFour Asset Management LLP

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Further information on fund charges and costs are included on our website at www.twentyfouram.com