Vontobel Fund – TwentyFour Strategic Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

August was a volatile month for markets, with early strength reversing as the Fed reiterated that its job on inflation was far from done and the threat of Russia cutting gas supplies to Europe grew. As a result, the S&P 500 was down 4% and the EuroStoxx 50 was down 5.1% for August. In fixed income, the Crossover index widened from 511bp to 588bp over the month having got to a mid-month low of 463bp, and government bonds sold off with the 10-year US Treasury yield rising from 2.57% to 3.19%.

Sentiment was positive at the start of the month due to the belief that the Fed had made a dovish pivot at its July FOMC meeting, as well as attractive valuations still available due to the steep sell-off in June. The US CPI release came in lower than expectations with the headline year-on-year figure at 8.5%, down from the prior month's 9.1% print and below the 8.7% market estimate. This was helped by falling energy prices as oil fell below $90 a barrel, but core CPI also came in lower than expected at 5.9%. This gave the market increased confidence that peak inflation in the US has passed and risk-on assets rallied subsequently.

However, a concerted effort by Fed officials followed to highlight that inflation was still well above their target. This culminated at the flagship Jackson Hole event where Jerome Powell sent the clear message that there will be "restrictive policy stance for some time" and that this may inflict "some pain to households and businesses". This sent Treasury yields higher and risk assets sold off sharply.

In Europe, the overriding topic was whether Russian gas would be cut off via the Nord Stream 1 pipeline. Another period of maintenance planned by Russia for the end of August led to fears that a total cut-off may be imminent, leading to German power trading at €500/MWH for the first time in history. This stoked inflation and recession fears for Europe, not helped by Germany's producer price index (seen as a good lead indicator of inflation) which rose by 5.3% on the month, well above consensus.

In the UK, the Bank of England raised rates by 50bp at its August meeting as expected. It also guided towards 13.2% inflation and a long, yet shallow, recession. Much of this was already priced in and thus the market reaction was muted. The UK's CPI release was higher than expected, however, coming in at 10.1% vs 9.8% estimated. This, coupled with the prospect of tax cuts under a likely Liz Truss government resulted in UK Gilts underperforming for the month, with the 10-year yield moving 100bp higher to 2.80%.

Elsewhere, Nancy Pelosi's visit to Taiwan at the beginning of the month increased tensions between China and the US and led to a short term rally in US Treasuries. Additionally, higher than expected supply in August with issuers taking advantage of more benign conditions led to some headwinds to credit spreads towards the end of the month, as the market struggled to digest the unexpected supply during the summer months.

Portfolio Commentary

The portfolio managers increased the portfolio's liquidity target to 22%, allowing flexibility in current volatile times. The team selectively trimmed credit across sectors to raise this liquidity. The holding in 10-year US Treasuries is now around 15.5%, as the team continued to increase interest rate duration opportunistically as yields drifted higher.

Risk-off markets produced negative returns across the board in August, with USTs down 2.6%, Bunds down 4.8% and Gilts underperforming at -8.1%. In risk markets COCOs returned -2.6%, US, European and UK high yield were down 2.4%, 1.2% and 1.0% respectively and emerging markets bucked the trend with a positive return of 0.8% for August.

The Fund returned -1.09% in August (Class G). CLOs were the only positive contributor for the month, adding 1.01% to portfolio returns. Bank AT1s were the biggest drag on performance at -0.74%, followed by Government – Rates (-0.59%), emerging markets (-0.29%) and US high yield (-0.24%).

Market Outlook and Strategy

The team will be closely monitoring the gas situation in Europe, including any cut-off and reactionary supportive fiscal measures from the EU. There are also major central bank meetings in September for the Fed, ECB and BoE which will be very important to assess forward looking monetary policy for the end of 2022 and then 2023. The managers will also follow key economic releases, particularly inflation and employment data.

The team will keep liquidity elevated to enable flexibility in the strategy, as well as keeping credit duration short and looking to keep credit quality high as uncertainty remains high. Additionally, more supply in September may allow good opportunities for the managers to conduct relative value switches.

Rolling Performance	31/08/2021 - 31/08/2022	31/08/2020 - 31/08/2021	30/08/2019 - 31/08/2020	31/08/2018 - 30/08/2019	31/08/2017 - 31/08/2018
Class G	-12.53%	8.05%	4.80%	5.65%	1.06%

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.

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.

Fund Managers

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

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For definitions of the investment terminology used within this document please see glossary at: https://twentyfouram.com/glossary

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