Vontobel Fund – TwentyFour Strategic Income Fund

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Market Commentary

October was a firmer month in risk assets, and with no obvious catalyst it could largely be described as a relief rally after a very weak September. The S&P 500 was up by 8% over the month and the Eurostoxx 50 returned 9%, while in credit, the iTraxx Crossover index tightened from 641bp to 555bp. Risk-off assets meanwhile drifted wider, with the exception of UK Gilts, which rallied after the news that Rishi Sunak was going to replace Liz Truss as UK prime minister.

Once again all eyes were on the US CPI inflation print, and once again it came in above expectations. The headline year-on-year and month-on-month numbers of 8.2% and 0.4% respectively were both higher than market consensus, but unlike previous periods this year when we'd seen similar beats, there was no sharp sell-off in risk assets and instead equities and credit rallied – perhaps a sign of just how much bad news was priced into markets. The US labour market offered mixed messages as the number of job openings fell by over 1m, but job creation remained strong with an increase of 288k in non-farm payrolls. The unemployment number also fell from 3.7% to 3.5%, helped by a decline in the participation rate, in more evidence that the labour market remains very tight.

The CPI print did lead to a cycle-high yield on the 10-year US Treasury of around 4.25%, aided by FOMC members pointing towards a 'raise and hold' policy. For example, Atlanta Fed President Raphael Bostic stated: "I am not advocating a quick turnaround toward accommodation. On the contrary." Treasury yields did come off their highs however as the Wall Street Journal's Nick Timiraos – a journalist considered well connected at the Fed – reported that officials would be debating a slowdown in hikes and a change in rhetoric after November's FOMC meeting.

European government bonds remained fairly flat across October, after an initial sell-off was reversed following the European Central Banks's October 27 policy meeting. The expected 75bp hike was followed by a dovish-leaning press conference from ECB president Christine Lagarde, where a reference to "several" more hikes was notably absent but the lagged effect of monetary policy and an increase in the probability of recession were both discussed.

UK Gilts outperformed in October after Liz Truss was replaced by Rishi Sunak as prime minister. Sunak and Jeremy Hunt, the new Chancellor, reversed almost all of Truss' mini-Budget policies which had destabilised the UK market. Furthermore, Sunak appears generally regarded as a safe pair of hands thanks to the markedly different economic policies on which he ran against Truss in the previous Conservative leadership campaign, which has reassured markets and saw 10-year Gilt yields tighten from 4.08% to 3.50% over the month.

Elsewhere in October there was some weakness in Chinese assets as President Xi Jinping began his third term by surrounding himself with loyalists, which made investors nervous about future shifts in domestic and foreign policy. In addition, OPEC+ decided to reduce output by 2m barrels per day to help prop up oil prices in the face of anticipated faltering global demand.

Portfolio Commentary

The portfolio managers kept elevated levels of liquidity in October allowing flexibility as volatility remains high. There were very few new issues to consider, though some high quality names did come to the primary market towards the end of the month. The team conducted relative value switches from a bottom-up perspective.

In risk markets, the US, European and UK high yield indices returned 2.85%, 1.67% and 2.47% respectively, while the COCO index was up 2.78%. In risk-off markets, US Treasuries were down 1.52% but Gilts outperformed returning 3.30% and Bunds returned 0.21%.

The Fund returned 1.66% for October. The biggest positive contribution came from AT1s at 0.97%. CLOs and Insurance added 0.17% and 0.30% respectively, while US high yield (0.43%) outperformed European high yield (0.21%). The biggest detractor was 'Government – Rates' at -0.25%.

Market Outlook and Strategy

We expect market sentiment will be driven by the two remaining Fed meetings of the year, and just as importantly the two remaining US CPI inflation prints, as investors look for any change in forward guidance going into 2023.

The UK's new fiscal plan is due to be released in mid-November and this will hopefully continue to rebuild the credibility of the UK Government. As we enter winter in Europe we will continue to assess the energy supply situation.

The team will continue to keep liquidity elevated as volatility is set to stay in the coming months as the market assesses how close we are to terminal rates. The team will look to extend the duration of Government bonds as we approach these terminal rates. With new issues showing signs of perhaps returning this may present the team with some attractive opportunities.

Rolling Performance	29/10/2021 - 31/10/2022	30/10/2020 - 29/10/2021	31/10/2019 - 30/10/2020	31/10/2018 - 31/10/2019	31/10/2017 - 31/10/2018
Class G	-16.30%	6.90%	4.09%	6.64%	-0.40%

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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Portfolio Management, industry experience since 2012.

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