

Vontobel Fund - TwentyFour Strategic Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

February was yet another month of conflicting economic data for investors to digest, but ultimately one where risk assets performed strongly, especially equity markets, with the S&P 500 going through 5,000 for the first time and the Nikkei finally getting back to 1989 highs. Tech companies were the main drivers behind equity indices reaching new highs, with the hype surrounding artificial intelligence (AI) continuing to drive very strong performance, and Nvidia added almost \$0.5tn to its valuation in February alone.

Kicking off the month in the US, ISM manufacturing, new orders and prices paid all came in well ahead of consensus, and, the following day, nonfarm payrolls added 353k jobs, when only an addition of 185k was expected, while the unemployment rate fell to just 3.7%. In addition, average hourly earnings were much stronger than expected and reinforced the message that inflation was likely to be sticky and that the easier progress had already been made. Inflation data for January, which was reported mid-February, supported this, with headline and core CPI coming in hotter than expected, for both monthly and yearly readings. In reaction to this, Treasury yields, which had fallen at the end of January on renewed fears around US regional banks (New York Community Bank equity down 25% for the month), began to climb; 10-year Treasury yields, which started the month at around 3.9%, reached year-to-date highs of 4.32%, as projections of interest rate cuts were moved further into 2024. Along with strong economic data and sticky inflation, US Federal Reserve (Fed) officials continued to play down any imminent cuts to base rates, with official after official emphasising the need to be patient while inflation came closer to target, as the economy remained robust.

In Europe, economic data continued to be mixed, supporting the view that rates could be cut sooner than in the US. However, European Central Bank (ECB) officials echoed the message from the Fed and stuck to the line that they needed to be patient until prices were under control; they pointed to wage expectations remaining high as a reason to stay restrictive. As the month wore on, manufacturing and services Purchasing Managers' Index (PMI) numbers came in ahead of expectations, adding to rhetoric that rate cuts could be slow to emerge in the EU, while regional CPI numbers at month end also suggested that inflation, which had fallen rapidly, was becoming stickier. In response to the better data, and to the move higher in Treasury yields, German bund yields also climbed over the month, with the 10-year maturity yield increasing from 2.16% to 2.40%. In the UK, economic data was even more mixed, with inflation data coming in lower than expected and the Office of National Statistics confirming the UK entered a technical recession in H2 2023. However, the consumer remained strong and average weekly earnings remained higher than expected.

All in all, the strong data continues to surprise market commentators, meaning that rate cut expectations are being re-examined and in the US over 50 basis points (bps) of expected cuts were removed for 2024, while 45bps of cuts were removed from the German bund curve.

Portfolio Commentary

Markets were very active, with companies taking advantage of the rally in spreads, and issuing bonds ahead of maturities. Investment-grade-rated (IG) companies were particularly active, with high-yield (HY) corporates in the US also being active issuers, while, in Europe, primary markets were quieter. Banks were also very active, taking advantage of markets that were receptive to new issues. AT1 bonds continued to be called on their first call dates, and a number of tenders were also carried out for short call bonds, with issuers eager to lock in spreads that had rallied to almost two-year lows in mid-February. The new issues continue to find strong demand, with pricing often tightening by over 50bps from new issues price talk, and deals generally performed well when they began trading.

There was also increased focus on banks that had exposure to commercial real estate (CRE), with the spotlight falling on some of the smaller German banks, particularly on Deutsche Pfandbriefbank, which is mostly exposed to European CRE, but also has exposure to US, and bonds sold off aggressively as investors waited for earnings from the bank in early March.

As mentioned, February was a strong month for risky assets, but more mixed for government bonds and sectors that are correlated to rates markets. With yields going higher, the US Treasury Index fell by 1.4%, while the UK Gilt Index fell 1.2% and Euro rates declined by 1.2%. Similar moves were seen in investment-grade IG corporates, with US IG falling by 1.4% and Euro IG declining by 0.9%. Higher risk assets continued to see spread tightening, as hopes of a soft landing grew, and US dollar, sterling and Euro HY indices rallied by 0.3%, 0.7% and 0.35% respectively, while the CoCo Index (contingent convertible bonds) advanced by 0.34% over the month.

The Fund returned -0.21% during the month, as rates and rate-correlated sectors underperformed. The best performing sectors were collateralised loan obligations (CLOs), followed by insurance and Euro HY. The biggest detractors from performance were government bonds and non-AT1 banks.

Market Outlook and Strategy

The markets will continue to look closely at economic data, especially inflation and growth expectations, for hints of when central banks will begin to cut rates. While hopes of a soft landing are growing, there are still signs that the aggressive rate hikes have impacted some sectors very negatively, such as CRE, and fears that surrounded US regional banks at the end of January could resurface. With these risks in addition to geopolitical risks continuing to rise, the portfolio managers are happy to hold long rates positions, which offer relatively cheap insurance against a negative shock. However, they acknowledge that the strong data will likely continue to push against any significant rally. The PMs expect to continue to be active in the primary markets, as bonds continue to be called, and will continue to look to take advantage of attractive relative value opportunities.

Cumulative Performance	1m	3m	6m	1y	Annualised				Since Inception*
					3y	5y	10y		
Class G Acc	-0.21%	5.00%	7.81%	8.14%	-0.20%	2.86%	N/A	3.28%	
ICE BoAML Global Broad Market	-0.96%	2.03%	2.60%	3.99%	-3.12%	-0.26%	N/A	0.58%	

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class G Acc	1.30%	10.04%	-12.61%	2.30%	7.71%	9.59%	-2.36%	8.99%	5.90%	N/A	N/A
ICE BoAML Global Broad Market	-1.25%	5.67%	-13.46%	-1.73%	5.30%	6.49%	0.02%	1.97%	3.64%	N/A	N/A

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 30/11/2015.

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 Sub-Fund's investments may be subject to sustainability risks. The sustainability risks that the Sub-Fund may be subject to are likely to have an immaterial impact on the value of the Sub-Funds' investments in the medium to long term due to the mitigating nature of the Sub-Fund's ESG approach
- The Sub-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 Sub-Fund may be obtained from Vontobel.com/SFDR

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The Fund considers environmental, social and governance (ESG) factors in the investment process, utilising an integrated approach. Information on the integration approach may be obtained from <https://www.twentyfouram.com/responsible-investment-policy>

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

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ICE BofAML Global Broad Market Index - tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

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