

Fund Commentary | 31 March 2025

# Vontobel Fund – TwentyFour Monument European Asset Backed Securities

This Commentary is a marketing communication for professional UK investors only

## Market Commentary

- **Summary:** The tone in credit markets continued to soften during March. In the European securitised market, collateralised loan obligations (CLOs) traced wider market moves, while technical allocation to the asset-backed security (ABS) market supported spreads. Primary activity in the ABS market fell somewhat but remained healthy with €11bn of issuance, and the CLO market remained active with €12bn of issuance. Secondary markets were more active, in both bid-wanted-in-competition (BWIC) and bilateral activity. BWIC ABS volumes reached €750m while they amounted to €1.8bn for European CLOs. Mezzanine ABS continued to outperform due to the strength of investor demand, while senior ABS performance was flat on the month. Investor participation in both primary and secondary markets was strong.
- **ABS:** During March, €11bn was issued across ABS sectors, with a significant uptick in placement of European automotive and consumer transactions, all from established platforms. Coverage across tranches remained strong, in line with previous months. However, as this facilitated a tightening of the curve, AAA subscription increased. Final coverage across AAAs reached 2-3 times, which facilitated 5-10 basis points (bps) of tightening in the tranche. While there has been a lull in European residential mortgage-backed securities (RMBS) for the year, Credit Agricole printed an €800m transaction in the last week of the month at a final spread of 0.59% over Euribor, which left 1-2bps on the table. We continued to welcome issuance from the commercial mortgage-backed security market, where a dual-sponsor mixed UK deal was placed. The AAAs in the deal priced at the wide end of initial talk of 1.5% over SONIA, as investors showed sensitivity to collateral quality in the sector.
- **CLO:** March witnessed a level of 'indigestion' in the CLO market, which was an issue that was highlighted last month. The European CLO market saw €12bn of supply, which included €5bn of new issues with a focus on resets. The situation was amplified in the US, where €14bn was issued, of which just €2.5bn was new. Wider market moves, along with significant CLO supply, contributed to the softening that occurred as the month progressed, which ramped up quickly. In Europe, AAA spreads moved 5-7bps to 126bps and BB spreads by as much as 100bps to 575bps. The move was more pronounced in the US and for CLO refinancings. The selling in the CLO market mostly came from US investors – which had been the largest buyers in January and February – as US risk sentiment turned. European loan markets moved in tandem and experienced a significant sell-off, ending almost 1 point lower at 97.6, which represented an opportunity for CLO managers ramping pools and equity returns.

## Portfolio Commentary

- March was a relatively quiet month for the Fund. In the European ABS market, the focus was on rotations from shorter consumer paper at 0.55% over Euribor into primary transactions, which picked up 10bps of spread. The team continued to allocate to Australian ABS, where collateral performance remained strong and the stack, particularly AAA automotive bonds, looked attractive on a currency-adjusted basis. The Fund's positioning remains relatively liquid because of on-going trade and geopolitical risk.

## Market Outlook and Strategy

- The European securitised market decoupled during March, as CLOs, which are traditionally more highly correlated to the high-yield markets, were softened by wider credit moves and heavy supply. Ongoing strong demand for ABS products supported spreads in the market, despite the escalation in geopolitical risks and trade tensions.
- We expect supply from the European ABS market to intensify. However, this is expected to be matched by positive flows from international accounts and drive momentum in spreads. While consumers continue to display resilience and collateral performance is strong, inflationary sentiment from the UK Budget and trade policy of the new US administration will likely point to more stringent conditions for consumers. Thus, we continue to prefer established lenders with a strong track record.
- The PMs have for a long time favoured liquidity and flexibility. If US tariffs result in market volatility, then they believe this could present an opportunity to add bonds at significantly wider spreads. The CLO market has traditionally shown the highest correlation to credit markets. It is also the market with the most global buyer base and where the most opportunities are likely to present themselves.

Cumulative Performance	1m	3m	6m	1y	Annualised				Since Inception*
					3y	5y	10y		
I EUR Acc	0.08%	0.94%	2.17%	5.15%	3.94%	3.96%	N/A	1.96%	
3 month Euribor	0.21%	0.63%	1.40%	3.29%	2.74%	1.43%	N/A	0.80%	

Discrete Performance	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
I EUR Acc	0.94%	6.70%	8.43%	-4.54%	1.73%	-0.14%	2.05%	-1.14%	N/A	N/A	N/A
3 month Euribor	0.63%	3.65%	3.49%	0.34%	-0.55%	-0.42%	-0.36%	-0.32%	N/A	N/A	N/A

Past performance is not a reliable indicator of future performance. The performance figures shown are 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 27/06/2017. Euribor used as a proxy for cash as a performance reference for illustration purposes only, there is no specific return objective or benchmark for the fund.

## 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
- The structure of ABS/MBS and the pools backing them might not be transparent which exposes the sub-fund to additional credit and prepayment risks (extension or contraction risks) depending on which tranche of ABS/MBS is purchased by the sub-fund
- 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-fund's investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach
- The sub-fund's 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**

## Fund Managers



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Electronic Trading available by Calastone and EMX

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### Further information on fund charges and costs are included on our website at [www.twentyfouram.com](http://www.twentyfouram.com)

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