TwentyFour
a boutique of Vontobel

Fund Commentary | 31 July 2024

TwentyFour Select Monthly Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

July was a very strong month for fixed-income markets as cooling inflation and weakening labour market data led to a growing narrative that the cutting cycle is edging closer for the US Federal Reserve (Fed) and the Bank of England (BoE). Government bonds rallied sharply as investors moved to price in the probability of a greater number of interest-rate cuts by year-end, while heightened geopolitical tensions and political instability contributed to marginal credit spread widening. Equity markets had a more mixed month after a strong run over the year to date, with some evidence of sectoral weakness – particularly consumer discretionary.

US Treasuries experienced a steady and consistent rally throughout July as economic data pointed towards signs of weakening in both the US labour market and the consumer. The US jobs report at the beginning of the month delivered something for everyone; the non-farm payroll number came in higher than expected at +206k (versus +190k anticipated), but the last two months of revisions totalled -111k. The unemployment rate unexpectedly ticked up by another 10 basis points to 4.1%, fuelling fears that an upward unemployment rate trend is beginning to form given the increases in previous months. This was followed by a promising US inflation print, which showed month-over-month headline consumer price index (CPI) inflation falling by -0.1%, well below the +0.1% expected by markets and marking the biggest monthly decline since May 2020. The core print was equally encouraging, rising just 0.1% (versus the 0.2% survey figure); this represented the weakest month for core inflation since the beginning of 2021. The year-over-year headline and core prints fell to 3% and 3.3%, respectively, as the Fed continued its path to bringing inflation down to the 2% target. A stronger-than-anticipated second-quarter US GDP print later in the month partly pushed back on a growing narrative that the US economy was showing the first real signs of struggle. Economic growth came in at an annualised rate of 2.8% in the second quarter (compared to the expected figure of 2%), which is double the 1.4% pace seen in the first quarter. At the end of the month, the Fed acted in line with market expectations, keeping rates unchanged at its July meeting. However, Fed Chair Jerome Powell mentioned that the Federal Open Market Committee had started to discuss potential rate cuts and announced that "a reduction in the policy rate could be on the table at the September meeting".

US politics continued to dominate headlines during July as Joe Biden announced his withdrawal from the 2024 US Presidential race following weeks of pressure from members of the Democratic party. Vice President Kamala Harris took over as the Democratic presidential nominee and polls have the match-up between Trump and Harris as narrower than the Trump-Biden contest. In Europe, the second round of French elections brought an electoral shock, with the far-left New Popular Front (NPF) winning 188 seats and consequently securing the surprise outcome of being the largest single bloc. The far-right Rassemblement National (RN) party claimed 142 seats, significantly below the 190 expected before voting began, while Macron's bloc secured 161 seats – up from the 135 expected prior to the election. Since no bloc came close to an absolute majority (289 seats required), a hung parliament is the most likely scenario. The UK held its own national elections in July and will have a Labour Majority government (412 seats) in charge for the first time since 2010. Since the result was largely expected, the most noteworthy event from the election was the collapse in the Conservative vote, which went primarily to the right-wing Reform UK Party.

Eurozone CPI in July was marginally stronger than expected, with headline and core inflation rising a tenth above expectations, to 2.6% and 2.9%, respectively, on a year-over-year basis. The slight reacceleration in inflation and lack of significant weakness throughout European economies meant the European Central Bank (ECB) left base rates unchanged at its July meeting, but continued to insinuate that there will be further easing in the near future. This contrasts the narrative building in the UK, whereby investors moved to price in a 25bp rate cut ahead of the BoE's meeting on 1 August given that headline CPI remained at the targeted 2% for a second consecutive month. The UK economy also returned to growth in May as GDP rose by +0.4% on a month-over-month basis, double the +0.2% anticipated figure. Over the three months to the end of May, the economy grew by +0.9%, representing the fastest rate for over two years. Equity markets had a mixed month following a series of revenue misses and profit warnings from several big companies, particularly those in the airline, fashion and automotive industry.

Portfolio Commentary

Primary market activity tailed off towards the end of July as the summer lull began to take hold. This meant that the portfolio managers (PMs) were more active in the secondary market, focusing on attractive relative value switches. The team trimmed 1% of Additional Tier 1s (AT1) given the significant spread tightening witnessed here, reallocating this between non-Restricted Tier 1 insurance and non-AT1 banks, and reducing exposure to contingent convertible (CoCo) bonds on the whole, while maintaining exposure to financials.

The strong government bond rally seen throughout July meant the Treasury index enjoyed yet another positive month, returning +2.2% in July, while gilt and bund indices were up +1.9% and +1.6%, respectively. In line with the government bond outperformance, the US high-yield (HY) index (+2.0%) outperformed the European HY index (+1.2%). There was a similar divergence in total return performance between the two geographies on the investment-grade (IG) front (+2.4% and +1.7% for the US and European IG index, respectively). The CoCo bond index returned an impressive +2.0% over the month as bank earnings were resilient and largely surprised on the upside.

The Fund was up 1.61% over the month, with the largest contributors being bank AT1s (+0.57%), CLOs (+0.43%) and insurance (+0.27%). All sectors returned a positive performance for the third consecutive month; however, the lowest contributor was the Other Corporates portion of the portfolio, at +0.02%. Higher beta sectors including HY performed well on a total return basis given the Treasury rally and muted credit spread widening over July.

Market Outlook and Strategy

Markets will be keeping a close eye on how labour market and inflation data evolves over the next few weeks and months as the economy approaches a decisive period of the cycle. With major economies finely poised, both the timing and magnitude of interest-rate cuts should remain a hotly debated topic among economists, who will also be listening to central bank commentary to shape their economic thesis market sentiment and expectations. In line with historical data, the labour market could deteriorate further, while inflation should continue its downward trajectory.

The 2024 US Presidential race may be a driver of market sentiment in the upcoming months given the divergence in political approaches between Trump and Harris. The market should be able to digest any political news fairly well, and volatility is expected to be well contained. Primary issuance and market activity will likely slow further in August before picking up again in the autumn. The PMs will continue to see total returns driven primarily by carry for the remainder of the year.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
NAV per share inc. dividends	1.61%	4.49%	8.24%	21.26%	4.65%	6.17%	5.88%	5.89%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
NAV per share inc. dividends	10.99%	17.60%	-12.92%	7.48%	5.73%	11.94%	-1.41%	14.56%	8.20%	2.81%	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: 10/03/2014.

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

Fund Managers

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Further Information

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