TwentyFour
a boutique of Vontobel

Fund Commentary | 29 November 2024

TwentyFour Corporate Bond Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

October's elevated volatility spilled into November as the outcome of the US election and escalating tensions in Eastern Europe drove meaningful government bond moves. Trump's election as the next US president led markets to price in a slower US Federal Reserve (Fed) monetary policy easing cycle, as the implementation of his stated policies is expected to result in higher inflation and a larger budget deficit over the medium term. The significance of Trump's election for financial markets was matched by news that conflict between Ukraine and Russia escalated, with both sides launching attacks.

The non-farm payroll number, released at the beginning of the month, revealed that 12,000 jobs were created in October. The reading represented a significant miss versus the expected 100,000 increase and was the weakest figure since the end of 2020. On top of this, there were significant downward revisions to the numbers for each of the previous two months. The unemployment rate remained flat at 4.1%, in line with market forecasts, although on an unrounded basis, the figure increased by almost a tenth, from 4.05% to 4.15%. As expected, it was announced that weather-related disruptions from Hurricane Milton, which affected large parts of Florida, and recent worker strikes reduced the reliability of the report. The market's attention quickly switched to the US presidential election. The eventual result of a 'red sweep', whereby the Republican Party will take control of the executive branch and both legislative houses, has made it more likely that Trump will be able to pass some of the policies highlighted in his manifesto. US benchmark 10-year Treasuries sold off by approximately 20 basis points (bps) on the day as the result of the election became more apparent, with investors taking the result to be 'pro-growth', inflationary and likely to lead to a higher US budget deficit. Spreads across all US fixed income asset classes tightened following the result as conditions for US corporates are expected to be more favourable. The Fed's decision to cut rates by 25bps at its meeting the following day was largely priced in by the market. The Fed funds rate target range now sits at 4.50-4.75%, but Fed Chairman Jerome Powell did not give any indication on how the cutting cycle would proceed in the December meeting. US core Consumer Price Index (CPI) printed at 0.3% month-on-month for the third consecutive month, in line with market expectations, which drove the three-month annualised core CPI rate to 3.6%, up materially from August's 1.6% figure. Headline inflation was also broadly as expected at 0.24% month-on-month, although this represented the fastest pace since April, which suggested that inflationary pressures have started to resurface and has left the Fed in a precarious position on how to proceed with its easing cycle. The US retail sales and headline personal consumption expenditures numbers, released towards the end of the month, contributed to these fears, with the latter coming in at a monthly pace of 0.24%, which was above the 0.2% expectation and the highest level since May. Scott Bessent's nomination as the new US Treasury secretary contributed to a sizeable Treasury rally towards the end of the month, with the appointment viewed as being market-friendly. Bessent has historically supported a gradualist approach on trade tariffs and argued in favour of cutting the budget deficit, both of which would likely require lower US base rates.

Similarly to the Fed, the Bank of England (BoE) delivered a quarter-point rate cut in November, as the Monetary Policy Committee (MPC) voted 8 to 1 in favour of the decision to take the policy rate down to 4.75%, in line with market expectations. The MPC's statement said October's Autumn Budget was "provisionally expected to boost CPI inflation by just under half of a percentage point at the peak", while it also indicated that rates would continue to be moved lower. The latest GDP release showed that, despite economists expecting growth of 0.2% for September, UK GDP fell by 0.1% over the month. This followed growth of just 0.2% in the previous month and brought third-quarter UK GDP to 0.1%, below both the anticipated 0.2% figure and second-quarter expansion of 0.5%. The UK's dominant services sector grew by just 0.1% on the quarter, while the construction component rose by 0.8%. Headline CPI surprised to the upside, with the figure rising by more than expected to 2.3% in October from 1.7% in the previous month, largely due to the jump in energy bills. Services inflation remained elevated at 5%, in line with the BoE's forecast, although market reaction was relatively muted as investors continued to price in two fewer cuts in 2025 than the five that the BoE has indicated. Core inflation was hotter than anticipated at 3.3%, which compared with the consensus forecast of 3.1%.

European government bonds outperformed US Treasuries and UK gilts in November as eurozone data continued to support the narrative that the European Central Bank (ECB) would continue to cut interest rates at a faster pace than the Fed. One of these data points included the eurozone composite Purchasing Managers' Index print, which fell meaningfully to 48.1 in November from 50.0 previously and was well below the consensus estimate. The drop was driven primarily by the services component, which weakened in all countries across the bloc and negatively impacted the economic outlook. Markets received positive news on inflation as releases across the continent were lower than forecasts, with the highlights being Germany at 2.4% and France at 1.7%, which were 0.2% and 0.1% lower than expectations, respectively. Eurozone aggregated numbers came to 2.3% and 2.7% for headline and core inflation, respectively, both of which were lower than forecasts. This was largely a result of the downside surprise in services inflation, which came in at 3.9% and compared with expectations of 4.1%. The ECB's inflation expectations survey showed 2.1% for three years ahead, which is the lowest since the first quarter of 2022 and suggests that the battle against inflation in the eurozone is in its final stages.

On the geopolitical front, there were material developments in Eastern Europe, where tensions between Russia and Ukraine escalated. Ukraine, for the first time, used US-supplied long-range missiles to target locations inside Russia. This prompted Russia to launch intense missile strikes across Ukraine that targeted residential areas. Russian President Vladimir Putin vowed retaliation if attacks on his country's territory continued, claiming strikes on UK or US military bases in Ukraine could be carried out.

Portfolio Commentary

With European rates markets performing well throughout the month, the Fund produced a strong return of +1.61% after fees. This was +17bps ahead of the benchmark, which returned +1.44%.

This means that for the year to the end of November, the Fund has returned +5.54%, more than double the benchmark return of +2.64%, generating alpha for the Fund of +290bps.

Similarly to last month, attribution for the whole of November shows that performance contributions were basically in line across many sectors, with two major standouts. Within credit, the insurance positions combined well with an overweight to the sector, which, in total, added +28bps of contribution relative to the benchmark.

Away from the credit holdings, government bonds also delivered alpha for the month, with every single gilt held in the Fund exceeding the benchmark return. In fact, five of the six holdings returned more than 2%.

The portfolio managers (PMs) de-risked the credit portfolio early in the second quarter of 2023 due to concerns about the regional banking crisis in the US potentially spilling over into volatility in Europe. In addition, there were concerns about the lagged impact of significant rate hikes in 2022 leading to economic slowdowns and even, ultimately, contractions. As a result, the PMs kept a lower level of beta and credit spread duration than the benchmark for most of 2023 and 2024. However, interest rate duration was significantly increased in 2023 compared with 2022, although the PMs retained a slight bias towards yield-curve steepening. In February, March, April and May, duration was further increased to lock in some of the outperformance versus the benchmark given the rise in yields so far in 2024. As such, the portfolio's duration is the closest to the benchmark it has been in many years, which reflects the large-scale rise in yields globally in 2022, the first three quarters of 2023 and the start of 2024.

Market Outlook and Strategy

With the ECB having delivered its third interest rate cut, and the Fed dropping rates twice, the prospect of repeated rate reductions looks good through 2025. As such, the major risks to capital from duration risk look to have ended, and thus the PMs have continued to become more tolerant of duration in the Fund. However, they think the flat rates curves still make very long dated credit look especially expensive, even allowing for potential rate cuts later this year and next, which may take yield curves back towards historical levels of steepness. Therefore, they believe a modestly lower than average interest rate duration profile is still warranted. However, the PMs remain concerned that increasing unemployment rates across the US, UK and especially Germany, coupled with worsening inflation data globally, signal weakening GDP data to come. As a result, recession risks remain significant and are not fully priced into non-financial spreads, in the PMs' views, which means a lower beta credit stance is also still thought to remain warranted.

We believe the combination of lower-than-benchmark duration (-0.20 years versus the benchmark) and higher average yield, with high average credit quality, is the best way to address the likely volatility in the broader market that we expect over the next few months, while still producing a solid income. This stance is designed to maximise the breakeven yield as much as possible within the constraints of the Fund. This means that with a yield of about 5.8% (benchmark yield is 5.3%) and duration of 5.98 years, the breakeven yield is +99bps, which helps to provide more protection against rising yields than the benchmark.

In these markets, we appreciate having access to the PMs is more important than in 'normal' times. Therefore, we would encourage you to reach out to your sales contacts and set up meetings with the PMs to go through anything you like in more detail.

Cumulative Performance	1m	3m	6m	1y	Annualised 3y	5y	10y	Since Inception*
GBP I Accumulation	1.61%	1.20%	4.55%	10.45%	-1.94%	0.11%	N/A	2.24%
iBoxx GBP Corporate Bond Index	1.44%	0.68%	3.41%	7.40%	-3.14%	-0.66%	N/A	1.96%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
GBP I Accumulation	5.54%	9.09%	-17.70%	-1.55%	7.56%	9.73%	-2.26%	7.21%	8.48%	N/A	N/A
iBoxx GBP Corporate Bond Index	2.64%	9.70%	-18.37%	-3.19%	8.63%	11.03%	-2.20%	5.01%	11.83%	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, if applicable. 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 15/01/2015. The benchmark of the Fund is the IA £ Corporate Bond Sector however the secondary reference benchmark against which performance of the Fund may be compared is the iBoxx GBP Corporate Bond Index.

Key Risks

- Limited participation in the potential of single securities
- 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
- High-yield bonds (non-investment-grade bonds/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated bonds
- 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 **www.twentyfouram.com/responsible-investment**

Fund Managers

Chris Bowie
Partner, Portfolio Management, industry experience since 1992.

Gordon Shannon
Partner, Portfolio Management, industry experience since 2007.

Jack Daley
Portfolio Management, industry experience since 2011.

Johnathan Owen
Portfolio Management, industry experience since 2018.

Further Information and Literature:
TwentyFour Asset Management LLP

T. 020 7015 8900
E. sales@twentyfouram.com
W. twentyfouram.com

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

THIS COMMENTARY IS FOR FINANCIAL ADVISERS AND INSTITUTIONAL/PROFESSIONAL INVESTORS ONLY. NO OTHER PERSONS SHOULD RELY ON THEINFORMATION CONTAINED WITHIN THIS DOCUMENT. No recommendations to buy or sell investments are implied.

The Fund's Manager is Waystone Management Company (IE) Limited ("WMC"), which is authorised in Ireland and regulated by the Central Bank of Ireland. TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II (including its UK onboarding and onshoring legislation) obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256.

Past performance is not a reliable indicator of current or future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up, e.g. due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.This financial product does not make any commitment to invest in environmentally sustainable investments in the sense of the EU Taxonomy. The EU Taxonomy specific product disclosure requirements do not apply to this financial product. As the investments of the financial product do not take into account the EU criteria for environmentally sustainable economic activities in the sense of the EU Taxonomy, the "do no significant harm" principle according to the EU Taxonomy does not apply to the investments of the financial product. Neither the Fund, nor TwentyFour nor WMC make any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of an assessment of ESG research and the correct execution of the ESG strategy. Please contact the Compliance Department at compliance@twentyfouram.com for more information.

TwentyFour Asset Management LLP is a Limited Liability Partnership incorporated in England under Partnership No. OC335015 with its registered officeat 8th Floor, The Monument Building, 11 Monument Street, London, EC3R 8AF and is authorised and regulated in the UK by the Financial Conduct Authority,FRN No. 481888. Calls may be recorded for training and monitoring purposes. Copyright TwentyFour Asset Management LLP, 2024 (all rights reserved).