TwentyFour
a boutique of Vontobel

Fund Commentary | 29 November 2024

Vontobel Fund - TwentyFour Strategic Income 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 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

The portfolio managers (PMs) continued to carry out relative value switches in the secondary market throughout the month and remained active in the primary market by selectively participating in new issues. Following the US election result, the team decided to rotate into long-dated (about 10-year) US investment-grade (IG) corporates at the expense of some tighter IG credits that were on the shorter end of the yield curve. This was done to take advantage of the more favourable economic conditions for corporates and act on the rates sell-off at the beginning of the month. Additionally, the team added a half year of duration to the Fund, rotating 5% of 10-year Treasury exposure into 3% of 30-year Treasuries and 2% of 30-year German bunds. The move was intended as somewhat of a hedge against the increasing tensions in Eastern Europe, which the PMs thought investors were underpricing. Lastly, in alignment with the theme to increase the Fund's average credit quality, the PMs switched 50bps of European high-yield (HY) exposure for IG corporates given that the risk/reward dynamics had been moving increasingly in favour of BBB-rated paper over double-B and single-B corporates. The switch left the European HY and IG corporate targets at 5% and 9%, respectively.

Despite the government bond sell-off at the beginning of November, the late rally led the Treasury index to post a total return of +0.81% for the month. Gilts (+1.76%) and bunds (+2.14%) both outperformed given the weaker economic data from these two geographies. Credit also performed strongly, with US and European HY indices returning +1.13% and +0.51%, respectively, while their IG counterparts returned +1.18% and +1.64%. A continuation of strong asset quality, higher interest rates and robust capital positions from banks in the latest reporting season led the Contingent Convertible bond index to post a +0.71% total return in November.

Despite the rates volatility endured throughout the month, the Fund generated a strong total return of +1.32%, with the largest contributors being government rates (+0.56%), Collateralised Loan Obligations (CLOs) (+0.16%) and bank Additional Tier 1s (+0.13%). There were no detractors, with higher beta asset classes performing well given the continuation in resilient bank and corporate fundamentals and strong technical tailwinds. Non-CLO asset-backed securities contributed the least, however, at +0.01%.

Market Outlook and Strategy

With the US presidential election now behind us and fewer macroeconomic developments expected in December, investors' attention will be on whether there are any further developments in the Russia-Ukraine conflict going into year-end. Should tensions escalate further, the conflict would likely represent a significant driver of financial markets given the involvement of both Europe and the US. Beyond this, investors will continue to look for clues on how each of the three major central banks will proceed with their easing cycles, both in the form of economic data and their rhetoric. Trump's election should serve as a tailwind for US growth in the medium term. However, his preference for the imposition of tariffs on European and Chinese goods will dent market sentiment in those economies, which is expected to drive fears of a 'harder' economic landing.

Primary market activity will certainly slow as we head into year-end, although the PMs will respond to any material geopolitical or economic developments through the secondary market or by executing duration and liquidity switches, should these be necessary.

Cumulative Performance	1m	3m	6m	1y	Annualised 3y	5y	10y	Since Inception*
Class G Acc	1.32%	1.86%	5.57%	13.36%	2.03%	3.16%	N/A	3.88%
ICE BoAML Global Broad Market	1.19%	0.62%	4.67%	6.67%	-2.09%	-0.55%	N/A	1.03%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class G Acc	9.37%	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	3.24%	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. ICE Global Broad Market Index has been chosen as a proxy for the fixed income market overall and is used as reference index for illustration purposes only, there is no fund benchmark. Please see Important Information slides for further information on the index.

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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