TwentyFour
a boutique of Vontobel

Fund Commentary | 31 January 2025

Vontobel Fund – TwentyFour Absolute Return Credit Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

- January began with markets continuing to digest the hawkish rhetoric delivered by the Federal Reserve (Fed) at the end of 2024. The prospect of sticky inflation took centre stage and influenced investor expectations of a slower pace of interest rate cuts relative to previous forecasts. The sovereign bond sell-off that followed was further fuelled by a stronger-than-expected US labour report, which dampened fears of a significant weakening in the jobs market. The 10-year US Treasury yield peaked at 4.8% in January following the release of the employment numbers. Treasuries then rallied as downside inflation surprises in the US and other major economies reduced concerns around sticky inflation and the higher-for-longer narrative that had been building. The high levels of volatility, exacerbated by the news that Chinese firm DeepSeek had produced an open-source artificial intelligence model that rivalled some of the US technology giant's equivalents for a fraction of the cost, led to sharp equity moves. However, primary market activity remained high and spreads continued to tighten across both European and US risk assets throughout the month.
- UK gilts came under significant pressure at the beginning of January, with an outsized sell-off across the yield curve bringing the unwelcome headline that UK borrowing costs had reached the highest level since the last century. This came as market participants continued to digest the UK's worrying inflation and growth data releases from the last few months of 2024, which suggested that the Bank of England (BoE) would have to slow its rate-cutting cycle by more than previously anticipated. As a result, sterling-denominated risk assets suffered, with investors preferring the euro or US dollar curve as the pressure on gilts intensified. The tide began to turn as the month progressed, with a promising inflation report showing a significantly weaker-than-expected services Consumer Price Index print of 4.4%, year-on-year, which should set up the BoE to cut rates by 25 basis points (bps) at its next meeting. UK assets largely reversed their price moves, as did credit spreads, which tightened quickly by the end of January.
- Both the European Central Bank (ECB) and Fed meetings at month-end did little to move markets, with the former's 25bps cut and the latter's decision to hold fully priced in prior to the announcements. The ECB's decision came despite the encouraging upside surprise in the Eurozone's flash Purchasing Managers' Index numbers, which saw the composite figure rise to 50.2, representing the highest level since August.

Portfolio Commentary

- The Fund's higher beta positions generated the best total returns. These included Restricted Tier 1, Additional Tier 1, Lower Tier 2 bank and corporate hybrid debt.
- Government bonds had positive returns, but underperformed credit given spread tightening.
- Floating rate residential mortgage-backed security positions with attractive yields were added to the asset-backed security allocation due to more modest rate-cut expectations.

Market Outlook and Strategy

- There has been a marked contrast between the US, which has escaped a 'hard landing' economic scenario and looks set for decent growth in 2025, compared with weak core (and continuing to weaken in some cases) European economies, with elections imminent in Germany.
- The UK appears to be suffering due to the Budget, with survey data pointing to a significant deterioration in both business and consumer sentiment. The BoE has halved its economic growth forecast from 1.5% to 0.75% for 2025, while expecting inflation to remain above target for two years.
- Credit spreads are approaching the tightest levels since the global financial crisis, and while we have no default concerns on any portfolio holdings, the risk of modest spread widening is possible. Thus, the portfolio retains a lower credit spread duration position than the historical average for mark-to-market reasons.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
Class G Acc	0.69%	1.65%	2.79%	6.05%	2.74%	1.99%	N/A	2.68%
SONIA + 250	0.61%	1.84%	3.77%	7.83%	6.52%	4.95%	N/A	4.04%

Discrete Performance	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class G Acc	0.69%	5.87%	6.08%	-4.80%	0.52%	2.47%	5.02%	-0.83%	5.25%	4.99%	N/A
SONIA + 250	0.61%	7.87%	7.36%	3.97%	2.59%	2.73%	3.26%	3.11%	2.79%	2.91%	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: 28 August 2015. SONIA 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
- 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 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

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

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Partner, Portfolio Management, industry experience since 2007.

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Portfolio Management, industry experience since 2011.

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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