Vontobel

Monthly commentary / 30.8.2024

Vontobel Fund – Multi Asset Solution

Marketing document for institutional investors in: AT, CH, DE, ES, IT, LU.

Market developments

The month of August was marked by high volatility, especially during the first ten days, with significant sell-offs in risky assets; as per the textbook response, investors sold stocks and sought refuge in classic "safe havens" such as bonds, gold, the Swiss Franc, and the Yen. The sell-off was driven by fears of an imminent recession following weaker-than-expected employment data. Additionally, an unexpected interest rate hike by the BoJ, disappointing quarterly results from some major tech companies, and tensions in the Middle East further fueled market stress. However, after the release of better-than-expected data (including the ISM survey for the U.S. services sector) and reassuring comments from some Central Bank members, volatility decreased in the second half of the month, with a marked improvement in performance, particularly in the equity market. Fed Chairman Jerome Powell's speech at Jackson Hole on August 23, 2024, was highly "dovish"; he suggested that "the time has come to adjust monetary policy", though inflation data and labor market conditions will continue to play a central role in determining the extent of the rate cuts made in the coming months. In the wake of the Fed Chairman's remarks, equity markets continued to post positive performance, with the U.S. outperforming both Europe and emerging markets. On the factor level, momentum corrected significantly, with the dividend and low-volatility factors outperforming it. As for government bonds, rates fell globally, but a sharper decrease was seen in America, particularly following weaker labor market data and the statements from Chairman Powell. In the U.S., investors began pricing in 3 to 4 rate cuts (approximately 95bps) by the end of the year, and the yield curve steepened in the 2-10 year segment. Treasury yields continued the trend from July, showing a marked decline, particularly in the short end of the curve (2Y UST -35bps, 10Y UST -17bps). In the corporate sector, both the IG and HY spreads showed positive performance, with corporate credit spreads widening in the early part of the month before retracing later. In this context, the U.S. dollar weakened, closing the month at 1.10 against the Euro. As for commodities, including oil, these posted negative performances, despite strong upward movements during the month due to tensions in the Middle East. Finally, the price of gold remained around record levels of USD 2,500 per ounce.

Portfolio review

In August, a few changes were made to the portfolio allocation. The weight of the equity segment increased, reaching 34.7% by the end of the month, divided between individual stocks (Safety and Dividend strategies), some futures (MSCI World indices, Russell 2000), and a call option position on the S&P 500 index, which was introduced toward the end of the month. Profit was taken from certain put options on the S&P 500 index, which performed exceptionally well during the sharp market correction in early August. Moreover, in a tactical move, profit was taken on a futures position in the Nikkei, which benefited from the rebound that began on August 6. Finally, while the futures position on the MSCI Emerging Markets index was closed, the position in futures on U.S. small caps was maintained. Meanwhile, the bond component of individual securities accounted for 67.2% of the portfolio, split between corporate bonds (35.4%) and government bonds (31.8%). Following the sharp decline in interest rates in early August, profit was taken from the short end of the U.S. Curve. By the end of the month, positions in U.S. and German 10-year government bond futures had a weight of 14.3%. Furthermore, positions in the Vontobel Fund – Green Bond and Vontobel Fund – Sustainable Emerging Markets Debt were maintained. The bond portfolio has a duration of 4.8 years, a yield to maturity of 4.1%, and an average rating of A-. In terms of currency exposure, following the significant weakening of the US Dollar, exposure was increased to 32.7%, while the position in Japanese Yen was maintained at 2.2%. Additionally, over the course of the month the position in commodity futures was reduced to 1.5%, while the gold ETF was kept in the portfolio with a weight of 1.5%.

Performance analysis

In August, the Vontobel Fund - Multi Asset Solution achieved a positive performance, supported by both the equity and bond sectors. Within the equity portfolio, the Safety factor provided a positive contribution, whereas the Dividend factor contributed negatively; however, both factor portfolios outperformed the global equity market. Moreover, positive contributions came from both the put options on the S&P 500 and the Nikkei futures. In terms of sectors, the largest contributions came from Consumer Staples, Consumer Discretionary, and Information Technology. As far as the bond portfolio is concerned, it made a positive contribution thanks to its exposure to the corporate segment and the downward movement in government interest rates. Additionally, a positive contribution was noted from both the Vontobel Fund – Green Bond and the Vontobel Fund – Sustainable Emerging Markets Debt. As for commodities, while exposure through futures provided a negative contribution during the month, the gold ETF contributed positively. Finally, there was also a negative contribution from exposure to the US Dollar.

Outlook

The most likely scenario for the second half of 2024 continues to be one of a gradual economic slowdown (soft landing) with more accommodating central banks, but as reflected in recent data, the market has not completely ruled out a “hard landing” scenario, especially in light of recent macroeconomic data from the US. The soft landing scenario envisages a market capable of addressing the ongoing slowdown, thanks to the recovery of disposable income following the fall in inflation. The Fed has also announced the start of rate cuts as of September, and the market currently expects around three rate cuts by the end of the year. However, the size of these cuts will depend on the data released in the coming months. In Europe, we also expect three rate cuts from the ECB and at least two in the UK. The market narrative continues to shift very quickly and is closely tied to the economic data we are monitoring carefully, both in the US and across Europe. According to our proprietary models for analyzing the economic cycle, a more pronounced contraction is underway in developed markets, while emerging markets are currently showing greater resilience, with a lower probability of contraction over the next month compared to developed markets. Although one of the main problems for investors is guessing how many rate cuts will happen, the best strategy will be to continue active management, focusing on asset allocation and flexibility. The question now is not whether rates will fall, but by how much. In our opinion, it is better to remain invested, focusing on defensive and high-quality names. In light of this, we prefer dynamic allocation with a quality bias. Our stance is neutral with regard to equity and positive with regard to the corporate (Investment Grade) and government bond markets for the coming months. This context is favorable for fixed income, as government bonds should be well-supported, while credit spreads could move sideways in the absence of a surge in defaults or an economic recession. This is why we're focusing on high-quality credit. Based on current yield levels and inflation below 3%, it's time to refocus on the negative correlation between stocks and bonds. In fact, following the latest employment data, we believe the market has priced in too many rate cuts in America, but this is an initial sign that duration could once again play a beneficial role within portfolios.

Fund characteristics

Fund name	Vontobel Fund – Multi Asset Solution
ISIN	LU1564308895
Share class	I EUR
Reference index	–
Inception date	23.2.2017

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	1.4%	–
YTD	5.1%	–
1 yr	9.3%	–
3 yrs p.a.	-0.1%	–
5 yrs p.a.	2.2%	–
10 yrs p.a.	–	–
ITD p.a.	2.3%	–

Time period	Fund	Ref. index
2023	6.7%	–
2022	-10.8%	–
2021	3.6%	–
2020	5.8%	–
2019	10.6%	–
2018	-4.5%	–
2017	–	–
2016	–	–
2015	–	–
2014	–	–

Past performance is not a reliable indicator of current or future performance. Performance data does not consider 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 due to changes in the rates of exchange between currencies.

Investment risks

- Using derivatives creates significant leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- Asset-backed and mortgage-backed securities, and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- A company's stock price may be adversely affected by changes in the company, its industry or economic environment and prices can change quickly. Equities typically involve higher risks than bonds and money market instruments.
- Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
- 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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