Monthly commentary / 31.12.2025

Vontobel Fund – TwentyFour Strategic Income Fund

Summary

- The main headlines at the beginning of December came from developments in Japan, where comments from Bank of Japan (BoJ) Governor Kazuo Ueda led investors to price in a higher probability of a December interest rate hike. Later in the month, the BoJ announced that it was raising interest rates. Meanwhile, US and UK base rates were cut.
- The portfolio remained well positioned to deal with realistic macroeconomic volatility. The team maintained the portfolio's high average credit quality, while managing duration exposure. Bank Additional Tier 1s (AT1s) were again the biggest contributor to the Fund's performance, as European banks continued to benefit from a strong technical amid solid earnings growth. The only detractor was the government bucket.
- The macroeconomic outlook for the beginning of 2026 points to solid global growth. While there are valid fears around the sustainability of technology and artificial intelligence (AI) valuations, and geopolitical uncertainty is likely to continue, fundamentally the portfolio managers believe that this remains a positive environment for fixed income assets.

Market developments

The main headlines at the beginning of December came from developments in Japan, where comments from Bank of Japan (BoJ) Governor Kazuo Ueda led investors to price in a higher probability of a December interest rate hike. Later in the month, the BoJ announced that it was raising interest rates by 25 basis points (bp) to 0.75%, representing the highest level since 1995. Over the month, the yield on 10-year Japanese government bonds (JGBs) rose by over 20bp to a post-2008 high of over 2%, while the yield on 30-year JGBs sold off to the highest level since the tenor was introduced in the late 1990s.

The Federal Open Market Committee delivered a third consecutive 25bp interest rate cut at the Federal Reserve's (Fed) final meeting of the year, which took the US base rate to a range of 3.50-3.75%. The reduction was accompanied by signals that the Fed would remain on hold in early 2026, with the so-called dot-plot projections showing the median participant only expecting one more rate cut in 2026. Furthermore, updated economic projections struck a hawkish tone, with real GDP revised higher across the 2025-27 period, while 2026 headline and core personal consumption expenditure (PCE) inflation were revised lower to 2.4% and 2.5%, respectively.

In the UK, weakening growth and easing inflation reinforced expectations that the Bank of England (BoE) would ease monetary policy going into 2026. The headline Consumer Price Index (CPI) slowed to 3.2% year on year, while GDP data pointed to softness within the economy. Against this backdrop, the BoE cut its base rate by 25bp to 3.75% in a close vote, which strengthened market conviction around further easing in 2026. Unlike sovereign bonds of other developed countries, UK gilt yields rallied over the month, with the 10-year yield peaking near 4.55% in mid-December, before easing back towards 4.45% by the end of the month. Longer-dated yields were more constrained by fiscal concerns and heavy issuance expectations, which limited the extent of the rally despite softer economic data.

Portfolio review

The portfolio remained well positioned to deal with realistic macroeconomic volatility. The team continued to keep the average credit quality of the portfolio high, while managing duration exposure. The portfolio managers retained their preference for extending duration through government securities rather than credit markets. The credit portion of the portfolio was defensive relative to historical levels, with the portfolio managers (PMs) avoiding CCC and weaker single-B names. The team continued to target carry in good quality credit and maintained liquidity to take advantage of periods of volatility when they presented themselves.

Performance analysis

The Fund was well positioned to benefit from bouts of buoyancy among market participants and withstand spells of weakness. Bank Additional Tier 1s (AT1s) were again the biggest contributor to the Fund's performance, as European banks continued to benefit from a strong technical amid solid earnings growth. The only detractor was the government bucket, where sovereign bonds suffered from rising yields as investors priced in fewer interest rate cuts by major central banks in 2026.

Outlook

The macroeconomic outlook for the beginning of 2026 points to solid global growth, with major developed economies expanding at close to their potential growth rates and inflation seemingly more contained. While there are valid fears around the sustainability of technology and artificial intelligence (AI) valuations, and geopolitical uncertainty is likely to continue, fundamentally the PMs believe this remains a positive environment for fixed income assets. With global GDP expected to expand, banks in solid shape, corporates generally healthy, households relatively resilient and central banks accommodative, the current cycle is likely to extend.

Prudent positioning will consist of maintaining an emphasis on higher-quality, higher-rated assets and avoiding aggressive moves out along the duration curve. Despite tight spreads, overall yields remain compelling and the opportunity to allocate to high-quality businesses at attractive yields means that staying on the sidelines – holding cash – is unlikely to be a rewarding strategy. Performance is expected to be driven by elevated carry and yields in the context of strong technical drivers.

Fund characteristics

Fund name	Vontobel Fund – TwentyFour Strategic Income Fund
ISIN	LU1322871390
Share class	I GBP
Reference index	–
Inception date	30.11.2015

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	0.4%	–
YTD	7.2%	–
1 year	7.2%	–
3 yrs p.a.	8.7%	–
5 yrs p.a.	2.7%	–
10 yrs p.a.	4.2%	–
ITD p.a.	4.0%	–

Time period	Fund	Ref. index
2024	9.0%	–
2023	9.9%	–
2022	-12.7%	–
2021	2.1%	–
2020	7.5%	–
2019	9.4%	–
2018	-2.5%	–
2017	8.8%	–
2016	5.6%	–
2015	–	–

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.

Investment risks

- 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.
- Asset-backed securities and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- 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.
- CoCo-Bonds are associated with significant risks, including the risk of coupon payments being cancelled, capital structure inversion risk, and the risk of a CoCo-Bond's maturity being extended.
- 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.

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