Review

November continued to build on the global market recovery that started during October, and with surprising vigour in several geographies. The UK equity market was a major beneficiary, and the iShares UK Equity Index tracker gained an impressive +7.47% for the month.

Explanations offered for the strong ongoing recovery included a weakening of the US Dollar and declining government bond yields as inflation figures, particularly in the US, started to show signs of peaking and declining. This helped fuel expectations that the US Federal Reserve will slow the pace of interest rate increases going forwards, possibly quite significantly. The oil price also continued its recent decline, bringing consumers some much needed relief from elevated energy prices.

The US midterm elections did not produce the expected decisive shift towards the Republicans, although they did win enough seats to regain control of the House of Representatives, thereby ensuring political gridlock as the most likely scenario for the next 2 years.

Elsewhere, the Covid situation in China shows no sign of abating as attempts to usher in a more 'pragmatic' environment resulted in a somewhat inevitable surge in cases and further lockdown restrictions across the country. In a rare show of defiance, mass protests at the ongoing restrictions on everyday life have sprung up across the country. Quite how the situation is resolved remains to be seen.

Here in the UK, the political dramas of recent months have calmed down significantly and the new Chancellor's autumn statement, promising billions of pounds of tax rises and spending cuts to mend the nation's finances, has been broadly well received, even if it did make for uncomfortable reading for many.

Fund performance / Activity

It was an outstanding month performance wise as the portfolio gained +12.53% (share class A GBP Net Accumulation), materially outperforming both the peer group average gain of +7.54% and the iShares UK Equity Index gain of +7.47%.

Outperformers were heavily concentrated in the industrial and consumer discretionary sectors and, to a more limited degree, in financials and included holdings such as Dunelm, Melrose, Bodycote, Vesuvius, DFS Furniture, Burberry, WH Smith, OSB Group and Intermediate Capital.

There were relatively few significant detractors in terms of holdings in the portfolio, although TP ICAP continued to suffer relatively after strong recent performance. Instead, most negative contributors came from index heavyweight stocks that we do not own, and whose share prices performed strongly, including AstraZeneca, HSBC, Anglo American, Unilever and Diageo.

We were slightly busier than normal in November as we made 2 new additions to the portfolio and 2 complete disposals. The disposals were of J D Wetherspoon and National Express and in both cases, whilst the franchises remain robust, we are more concerned about the level of debt in the businesses and its impact on the running of the respective companies. We redeployed the capital into new holdings in recruitment business PageGroup and industrial products and services company Hill & Smith, both of whom we have met recently.

We also added to a variety of holdings during the month, including OSB Group, Ashmore, WH Smith, NatWest and Taylor Wimpey.

Market Outlook

Several of the key 'trends' that have been dominating investor sentiment for much of 2022 are showing tentative signs of changing currently. Inflation looks to be peaking in many areas of the world and the US Dollar, Government bond yields and even the oil price are showing signs of turning lower. The extent to which these represent a fundamental change in direction remains to be seen, but as these have all given investors cause for significant concern this year, they are welcome initial developments and ones which we will continue to monitor closely.

We still expect a degree of economic weakness in the near future, driven primarily by the lagged impact of the previously mentioned rise in interest rates, inflation, energy costs and the dollar. However, as we have argued many times, we expect that weakness to be less severe than many predict and our conviction in that view will likely increase if the trend reversals noted above continue to gain traction.

Meanwhile, we have spent a significant period of November engaged with company management teams from a variety of different industries and the feedback we have received is, in general, supportive of our view that, while activity levels are softening at the margin, they are certainly not collapsing. The environment can, of course, deteriorate rapidly, but based on the conversations we are having currently, we do not believe that is the case generally today.

Market movements will likely remain volatile in the near term as investors wait for greater clarity regarding the outlook. Notwithstanding this uncertainty, we remain extremely enthusiastic for the upside potential for the portfolio, and we remain happy to purchase more shares, at attractive prices, in any further bouts of market weakness.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, December 2nd 2022
Data source (unless otherwise stated): Bloomberg, FE Analytics

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