VT Tyndall Real Income Fund

Monthly Commentary | July 2023

TYNDALL

Review

July was another solid month for global equity markets. The UK market, in contrast to June, broadly managed to keep pace with other international markets in July, and the iShares UK Equity Index tracker gained +2.58% for the month.

In the US, data continued to point to a relatively robust ongoing economic expansion in recent months with, as yet, no meaningful signs of the much-predicted recession. Consequently, the Federal Reserve, following the recent pause in interest rate increases, proceed to raise rates by 0.25% at their latest meeting and made clear, once more, that they remain open-minded and 'data dependent' when it comes to the future path for rates.

In Europe, the economic picture continues to look far less rosy, particularly in the manufacturing sector. Despite this, the ECB pushed ahead with another increase in interest rates although there were, thankfully, several members cautioning against aggressive increases going forwards. Over in China, whilst the data has remained weak, there have been an increasing number of policy announcements aimed at accelerating growth and, whilst it is too early to assess the full impact of these yet, areas such as global commodity markets have already started to improve in anticipation.

Meanwhile, here in the UK we have at last seen some welcome relief on the inflation front, with the latest figures for June coming in lower than expected. Headline inflation fell from 8.7% to 7.9% whilst 'core' inflation fell from 7.1% to 6.9%. With another interest rate decision due from the Bank of England soon, it remains to be seen to what extent these figures will influence their deliberations.

There are obvious signs now that the most interest rate sensitive areas of domestic activity, such as the housing market, are slowing significantly and there will be further 'lagged' effects of prior rate increases still to work through the system. We would urge the Bank to show patience in their efforts to continue bringing inflation down to more acceptable levels, although we remain concerned that such suggestions will be ignored.

Fund performance / Activity

Pleasingly, July was an excellent month for the performance of our portfolio, which gained +5.66% (share class A GBP Net Accumulation). This resulted in significant outperformance of both the iShares UK Equity Index tracker gain of +2.58% and the peer group average gain of +2.69%.

There were several major relative contributors to performance in July, including holdings such as Vistry, Rolls-Royce, DS Smith, Howden Joinery, Breedon, PageGroup and Vesuvius. Detractors to performance were more modest and included OSB Group, WH Smiths and EasyJet. Not owning HSBC and Unilever also proved detrimental as their share prices performed well.

July was another relatively quiet month in terms of portfolio activity, with no new additions to the portfolio and only 1 complete disposal, of Taylor Wimpey. We used these proceeds to add to preferred UK domestic related holdings such as Vistry, Howden Joinery, Dunelm and Breedon. We also added modestly to Weir, DS Smith and WH Smiths, and took profits in Melrose, Games Workshop, and Hill & Smith.

Market Outlook

We do not have a lot new to add in terms of market outlook this month. As previously noted, western economies are generally holding up better than most expected in the face of a prolonged and aggressive interest rate raising cycle, although it remains to be seen whether that will persist as the lagged effects of prior rate increases work through the system.

Meanwhile, we remain reasonably optimistic that we are near the peak for this particular rate cycle, as inflation is clearly now slowing across the board, even in the hitherto lagging UK. If we can reach that point without causing a dramatic slowdown in economic activity and/or significant financial 'accidents' that will certainly be a cause for celebration and, it must be said, a relatively rare achievement.

Corporate earnings have similarly held up better than most expectations over the last 12 months or so and the latest reporting season continues to surprise in terms of resilience. For sure there are pockets of weakness emerging, in areas such as UK housing related activity for example, but in aggregate earnings are holding up. Indeed, many of the industrial companies we have spoken to recently are suggesting that a period of 'de-stocking' may be ending. That should bode well for their earnings potential going forwards, particularly if stimulus measures in China start gaining traction.

We have commented at length on the extreme pessimism we have observed towards the economic outlook, and we have consciously fought against that based on the evidence we have seen on the ground. Whilst by no means 'euphoric' we are now starting to observe a softening in the level of pessimism, as the data has continued to confound the sceptics, and talk of 'soft landings' has become more widespread. We will continue to monitor investor sentiment going forwards although, in our opinion, we are a long way from overexuberance just yet.

We continue to expect a degree of volatility in markets 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, August 2nd 2023
Data source (unless otherwise stated): Bloomberg, FE Analytics

Contact Details:
Fund Manager - smurphy@tyndallim.co.uk
Head of Distribution - trussell@tyndallim.co.uk

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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JS.