VT Tyndall Real Income Fund

Monthly Commentary | September 2023

TYNDALL

Review

September has the reputation of being one of the weakest months of the year for global equity markets and this year proved no exception, with significant declines in most geographies. The UK was, for once, a rare positive outlier, and the iShares UK Equity Index tracker gained +1.48% for the month.

September was dominated, as so often recently, by the activities of global central banks. The US Federal Reserve decided to hold interest rates steady this month, albeit officials are still suggesting rates might rise again later in the year. US economic data has remained relatively resilient of late and inflation, whilst down considerably from the peak, shows signs of reaccelerating over the next few months as energy prices have started rising again.

Elsewhere, the European central bank pushed ahead with another 0.25% increase in interest rates, despite inflation coming down quite quickly across the region and economic growth weakening significantly. Whilst there were mixed messages from several officials, a consensus appears to be building that they have likely finished hiking rates for the foreseeable future.

Meanwhile, the Bank of England surprised many by also choosing to hold interest rates at current levels rather than raise again. Encouraging falls in inflation alongside weakening activity surveys were enough to swing the vote, albeit by the narrowest of margins, as the committee voted 5 – 4 to stay on hold.

Whilst an end to the interest rate hiking cycle appears at hand, bond markets did not react as many would have expected, as bond yields, particularly for longer maturities, rose significantly, no doubt contributing to the pressure on equity markets. One of the primary drivers was likely the significant rise in oil prices, approaching $100 again, and the implications that may have on inflationary pressures in due course.

Finally, the Chinese authorities continued their attempts to stabilise domestic property markets and kick start economic activity again, with a raft of policy announcements and significant injections of liquidity by the central bank. As in previous months, markets remain to be convinced on the efficacy of these measures thus far.

Fund performance / Activity

Following several strong months of fund performance, September was a disappointingly difficult month for our fund. A key contributor was mid-cap UK stocks, to which our fund has a heavy exposure, substantially underperforming their large-cap counterparts. Consequently, the portfolio fell -1.95% (share class A GBP Net Accumulation), significantly underperforming the iShares UK Equity Index trackers gain of +1.48%, and the peer group average gain of +1.41%.

There were a variety of individual detractors to performance in September, including Entain, Dunelm, WH Smith, Ashtead and Breedon. However, the biggest negative attribution came from not owning large-cap heavyweights HSBC, Shell and AstraZeneca. Contributors to performance, such as there were, included Vistry, TP ICAP, Weir and Intermediate Capital.

Capital at Risk – the value of investments can fall as well as rise and you may not get back what you invested

Past performance is not a reliable indicator of future results.

We were moderately active in the portfolio during September, adding 1 new holding, utility provider Telecom Plus, and making no complete disposals. We also added to a variety of holdings including EasyJet, Ashtead, Prudential, RS Group and Dunelm. We took profits in Rolls-Royce, Vistry, Wickes and BP.

Market Outlook

Whether the weakness seen in global equity markets during September is the start of a more prolonged period of risk aversion or a typical temporary seasonal pullback only time will tell.

There remain, as always, a host of concerns for markets to navigate, not least the lagged effect of significant interest rate increases still to work through the system, as we have noted numerous times previously. Additional concerns now include the continuing rise in longer dated government bond yields and the rebound in the oil price and its potential inflationary ramifications.

Notwithstanding rising bond yields, the apparent end of the interest rate hiking cycle is certainly a welcome development, as are the persistent attempts of the Chinese authorities to kick start their economy again. Meanwhile, although survey data has generally been quite weak of late, particularly on the manufacturing side, there are welcome signs that activity appears to be stabilising and perhaps improving at the margin. Additionally, labour markets continue to look relatively healthy, wage growth remains robust and consumers do still appear to be willing to spend.

Corporate earnings season will begin again in the US shortly and that will give an interesting insight into the resilience of demand across a wide variety of economic sectors, and likely set the tone for market risk appetite more broadly. It will come as no surprise to regular readers that we expect the commentary to be more robust than many fear.

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, October 2nd 2023
Data source (unless otherwise stated): Bloomberg, FE Analytics

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