VT Tyndall Real Income Fund

Monthly Commentary | October 2023

TYNDALL

Review

The weakness global equity markets suffered in September continued throughout October and this time the UK did not escape the falls, with the iShares UK Equity Index tracker falling -4.18% for the month.

October’s news was dominated by the horrendous attack on Israeli civilians by the Palestinian group Hamas, in which more than 1,400 people were initially killed. In response, Israel have effectively launched an all-out war against Hamas, with heavy bombing of Gaza and a subsequent, ongoing military operation on the ground.

It goes without saying that this is first and foremost a terrible humanitarian tragedy and our thoughts are with all those affected by these events. As for the impact on global markets, the prospect of a wider war in the Middle East, potentially involving the likes of Iran, certainly contributed to the significant increase in risk aversion during the period.

In other news, economic weakness continued to be a theme in most geographic regions, except for the USA where the economy still appears relatively resilient – the latest data on real GDP growth coming in at an impressive +4.9% annualised in Q3 2023. Meanwhile the Chinese authorities continued their efforts to stimulate the economy with further injections of liquidity into the banking system, alongside other measures, although to date these efforts appear to be having a relatively modest, if any, impact.

The debate surrounding whether global central banks have finished hiking interest rates continued through October, although as the month came to a close markets seem to be increasingly of the view that the peak for the US Federal Reserve, the ECB and the Bank of England has been reached. Inevitably, the debate will now move on to how long it will be before we start seeing cuts to interest rates again in due course.

Finally, third quarter earnings season is now well under way in the US and, to a degree, in Europe. Thus far, the general feeling appears to be that results have been somewhat disappointing, although certainly not disastrously so, and this has likely added to investor angst in the month.

Fund performance / Activity

Following a difficult September, fund performance was again disappointing in October. Given heightened risk aversion and significant underperformance from cyclical stocks, particularly in the small and mid-cap space, it was not entirely surprising, but unwelcome nonetheless. Over the month our portfolio fell -6.83% (share class A GBP Net Accumulation), significantly underperforming the iShares UK Equity Index tracker fall of -4.18%, and the peer group average fall of -4.52%.

There were a variety of individual detractors to performance in October, largely mid-cap cyclical holdings, including Vistry, EasyJet, Inchcape, WH Smith, Bodycote, PageGroup, Ashmore and Howden Joinery. Contributors to performance, such as there were, included Telecom Plus Moneysupermarket.com and Imperial Brands. Not owning index heavyweights HSBC and AstraZeneca also proved beneficial as their prices weakened in the general market sell off.

We were moderately active again in the portfolio during October, disposing of 1 complete holding, broadcaster ITV, and making no completely new additions. We did add to a variety of holdings including Dunelm, Prudential, RS Group, Vistry, WH Smith and EayJet. We took profits in Rolls-Royce and BP for a second consecutive month.

Market Outlook

The market mood has certainly deteriorated materially in the face of persistent weakness in both bonds and equities, alongside terrible events such as those occurring in the Middle East currently. Whether this is the start of a more prolonged period of risk aversion only time will tell.

There remain, as always, a host of concerns for markets to navigate, including the lagged effect of significant interest rate increases still to work through the system, generally weak economic activity levels, heightened geopolitical tensions in multiple regions and a less than stellar start to the corporate earnings season.

Notwithstanding these multiple concerns, 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 economic activity remains relatively subdued outside of the USA, it does not appear to be contracting at any material rate thus far.

One consequence of recent developments has been an extremely rapid fall in investor sentiment to levels, on a variety of different models, typically associated with a near-term recovery in markets. Whether this time will be different remains to be seen. Another consequence, certainly in a UK equity market context, is that valuations in a variety of areas of the market, particularly in the mid and small cap segments, are looking extremely attractive from a medium-term perspective – an important development not to lose sight of in the general shift to risk aversion.

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 increasingly attractive prices, in any further bouts of market weakness.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, November 2nd 2023
Data source (unless otherwise stated): Bloomberg, FE Analytics

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