VT Tyndall Real Income Fund

Monthly Commentary | November 2023

TYNDALL

Review

Following the weakness seen in global equity markets over the past few months, November saw a welcome return of risk appetite in many markets around the world. Pleasingly this included the UK, where the iShares UK Equity Index tracker gained +3.23% for the month.

Investor attention during November was focussed squarely on interest rates, and specifically the idea that they may well now have peaked in all the major geographies globally. Encouraging inflation data in many regions, most notably in the Eurozone, added credence to the idea, as did several US Federal Reserve members in various speeches throughout the month.

Global bond markets reacted extremely positively to this change in sentiment, with bonds in many countries registering their biggest monthly gain since the global financial crisis back in 2008/9. This positivity spread to other assets, including equities where strong gains were seen, largely in the more cyclical sectors and regions.

Elsewhere, the conflict between Israel and Hamas continued although, towards the end of the month, there were several days of ceasefire and releasing of Israeli hostages and Palestinian prisoners. Whether this marks the beginning of the end for this conflict remains to be seen but the fact that it has not, yet, resulted in wider escalation across the Middle East is a welcome development.

In other news, economic data continues to be somewhat confusing with pockets of strength, particularly in the US, whilst other areas are showing increasing signs of weakness. To date however, the widely anticipated global recession has yet to materialise, with even the much-maligned UK economy consistently, albeit modestly, surprising positively.

Finally, we had the Chancellor's autumn statement in the UK and, whilst the headlines were of an 'autumn statement for growth,' there were limited measures to get investors excited, although the cuts to National Insurance contributions and the permanent full expensing of business investment were welcome developments at least.

Fund performance / Activity

Following two difficult months, it was pleasing to see fund performance recover strongly in November. In a reversion of the previous month, cyclical stocks, particularly in the small and mid-cap space, performed especially well and gave our portfolio a substantial boost. Over the month our fund gained +7.73% (share class A GBP Net Accumulation), significantly outperforming the iShares UK Equity Index tracker gain of +3.23%, and the peer group average gain of +4.25%.

There were a variety of individual contributors to performance in November, largely mid-cap cyclical and financial holdings, including EasyJet, PageGroup, Intermediate Capital, OSB Group, Howden Joinery, TP Icap, RS Group and Ashmore. Detractors from performance, such as there were, included Entain and Inchcape. Not owning index heavyweight HSBC also proved detrimental as the share price performed strongly.

Activity was relatively muted in November, making no complete disposals and adding only 1 new holding to the portfolio, serviced office group IWG. We also added to several holdings including Ashmore, RS Group, Telecom Plus and WH Smith. We took profits in Rolls-Royce and EasyJet.

Market Outlook

We noted previously how materially the market mood had deteriorated over the summer – how quickly things can change in the space of a month! November has been dubbed 'the everything rally' as pretty much all major asset classes including bonds, equities, property, infrastructure, gold and even crypto have rallied hard. Whether this is the start of a more exuberant period for markets, or simply a sharp recovery from being short-term oversold, only time will tell.

The immediate economic outlook remains murky at best, although for some considerable time now the worst fears of many have not come to pass. The longer that continues, the greater likelihood that the major economies have been able to cope with all the obstacles thrown at them over the last few years, and we will continue to climb the proverbial 'wall of worry.'

It seems increasingly likely that we have now reached the end of the interest rate hiking cycle and that is certainly a welcome development given the stresses that have been building in certain areas of financial markets. Again, it remains to be seen whether the lagged effect of this particularly aggressive cycle will be enough to materially derail economic growth but, for now at least, we remain optimistic that will not be the case.

We are now, seasonally, in the most bullish part of the year and given the strength and breadth of the recent market recovery, it seems likely to persist into year-end at least. For it to broaden out materially during 2024 will probably require greater clarity regarding the economic and corporate profit 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, December 4th 2023
Data source (unless otherwise stated): Bloomberg, FE Analytics

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

vadevalor
AAA Rated Fund Manager

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