# VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | December 2023

## Review

Following the strong rally in November, markets continued to see an increasing level of risk appetite during December, very much in keeping with the typical behaviour at this time of year. Pleasingly, UK equities continued to participate and the iShares UK Equity Index tracker gained +4.30% for the month. For the full calendar year, the Index tracker gained +8.27%, a solid performance albeit a considerably smaller gain than seen in many other major international equity markets.

The themes that dominated investor attention during November, primarily peak interest rates and the possibility of no global recession, continued to drive markets forwards during December. Growth and inflation data in many regions continued to add credence to the idea, and even UK inflation, hitherto something of an international outlier, surprised positively with the latest CPI reading coming in significantly lower than expected at 3.9%.

Global bond markets continued to react extremely positively to this change in sentiment, and this positivity continued its spread across other asset classes, including equities. Pleasingly, participation in the recent equity rally has broadened out significantly, both geographically and down the market cap spectrum, an extremely positive development from our perspective.

Elsewhere, the ongoing conflicts between Israel and Hamas and Russia and Ukraine showed no real signs of abating, and the variable economic and corporate news flow persists, with pockets of both strength and weakness continuing to paint a mixed picture as we head in to 2024.

## Fund performance / Activity

Pleasingly, our portfolio continued to perform very strongly during December, again driven predominantly by cyclical stocks, particularly in the small and mid-cap space. Over the month our fund gained +8.85% (share class A GBP Net Accumulation), significantly outperforming the iShares UK Equity Index tracker gain of +4.30%, and the peer group average gain of +4.87%. For the full calendar year our fund gained +18.01% (share class A GBP Net Accumulation), some considerable way ahead of the iShares UK Equity Index tracker gain of +8.27%, and we were delighted to be ranked 1st out of 75 funds in the IA UK Equity Income sector for 2023.

There were a variety of individual contributors to performance in December, largely mid-cap cyclical and financial holdings, including IWG, Ashmore, OSB, Vistry, Vesuvius, EasyJet and Entain. Detractors from performance, such as there were, included Games Workshop and Imperial Brands. Not owning index heavyweights HSBC and AstraZeneca also proved detrimental as their share prices performed well.

Activity was relatively muted in December, making only 1 complete disposal, of oil major BP, and adding no completely new holdings to the portfolio. We took profits in holdings such as Rolls-Royce and Intermediate Capital, and we added to positions including WH Smith, DS Smith, Inchcape and Telecom Plus.

# Market Outlook

A second consecutive month of broad equity market gains seems to have improved the mood of market participants dramatically. The combination of falling inflation, resilient economic data, and a newfound belief that central banks have not only finished increasing interest rates for this cycle, but will soon be cutting them aggressively, has been a powerful positive cocktail.

As we noted last month, whilst the immediate economic outlook remains murky, the worst fears of many have continued, for now at least, to 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.'

One significant uncertainty that still exists is whether the lagged effect of this particularly aggressive interest rate hiking cycle will be enough to materially derail economic growth in the period ahead. We remain optimistic that will not be the case, but will be monitoring developments closely over the months ahead.

We have been pleased to see the broadening out of the recent equity market rally, both geographically and down the market cap spectrum – important indicators suggestive of sustainability in our view. In the very short term, we would not be surprised to see a period of consolidation, given the strength of the last two months. However, for the medium term we remain extremely enthusiastic for the upside potential for our portfolio, and we remain happy to purchase more shares, at extremely attractive prices, in any further bouts of market weakness.

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**January 2nd 2024**

Data source (unless otherwise stated): Bloomberg, FE Analytics

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