# VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | January 2024

TYNDALL

## Review

Following the strong rally in the last few months of 2023, equity market performance was more mixed in the first month of 2024. Whilst several markets across the globe managed a further positive period, the UK equity market was not, sadly, one of them. Consequently, the iShares UK Equity Index tracker fell -1.57% for the month.

The narratives that have prevailed in markets for some time now remained in force during January, with economic data remaining somewhat mixed and likewise inflation data. At the margin, investor expectations for an aggressive series of interest rate cuts during 2024 started to be scaled back in the face of persistently stronger economic data out of the US and, to a lesser extent, the UK.

The ongoing global geopolitical worries built further during January. Not only do the conflicts in Ukraine and Palestine show no real signs of resolution, but they have now been joined by conflict between Iranian backed Houthi fighters in Yemen and, primarily the US and UK. The Houthis have, for some time now, been attacking commercial ships in the Red Sea. This is causing immense disruption to international shipping routes and has elicited several military strikes against Houthi targets in Yemen and elsewhere.

In other news, the US continues towards a presidential election in November with, as it currently stands, the most likely scenario being a rerun of Donald Trump versus Joe Biden, as Trump makes significant strides towards the Republican nomination.

Here in the UK, polls continue to point to a comprehensive defeat for the current Conservative government as and when the next general election is called, with autumn 2024 appearing the most likely timeframe currently.

## Fund performance / Activity

Following two very strong months of performance, our portfolio gave back a modest amount in January. Over the month our fund fell -1.72% (share class A GBP Net Accumulation), marginally underperforming the iShares UK Equity Index tracker loss of -1.57%, and the peer group average loss of -1.42%.

There were a variety of individual positive contributors to performance in January, including EasyJet, Vistry, Wickes, Bodycote, and Intermediate Capital. Not owning index heavyweights Shell and HSBC also proved beneficial as their share prices fell. There were an equal variety of detractors from performance including Telecom Plus, DS Smith, WH Smiths, Moneysupermarket, PageGroup, Ashmore, and Inchcape.

Activity was again relatively muted in January, making only 1 complete disposal, of Asian bank Standard Chartered, and adding no completely new holdings to the portfolio. We took profits in holdings such as Vistry, Ashtead, Weir, and Vesuvius, and we added to positions including DS Smith, RS Group, Entain, DFS Furniture, Dunelm and Moneysupermarket.

# Market Outlook

Despite a relatively muted start to 2024, we still sense a general improvement in the mood among equity market participants. Whether that will persist as the year unfolds depends largely on the economic data continuing to prove resilient, inflation remaining relatively well contained and corporate earnings continuing to surprise positively.

On all these fronts we remain in the relatively optimistic camp and consequently retain a positive outlook for UK equities for the year ahead. Of course, the ongoing escalation of geopolitical tensions is a worry and needs to be monitored closely. Likewise, we still have the lagged effects of the aggressive hiking of interest rates to work through the economy. However, we do not, at this stage, expect these issues to be significant enough to derail our positive outlook.

If our outlook proves broadly correct, one issue we think markets will need to get more comfortable with is the notion that interest rates, whilst having peaked, may not come down as quickly as currently expected. We struggle slightly with the current desire to see rates falling sharply, and we suspect it is largely a function of many market participants having never really experienced an interest rate cycle before! Providing rates remain higher for the right reasons, primarily because growth continues to surprise positively, then we think markets should be able to cope just fine. Indeed, we think a more 'normal' cost of capital is to be welcomed for the medium-term.

As we noted last month, we have been pleased to see the broadening out of the recent equity market rally, both geographically and down the market cap spectrum, and we are not at all surprised to see a period of consolidation given the market strength of recent months. For the medium term we remain extremely enthusiastic for the upside potential of our portfolio, and we remain happy to purchase more shares, at extremely attractive prices, in any further bouts of market weakness.

**Simon Murphy, Fund Manager, VT Tyndall Unconstrained UK Income Fund,**

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

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