VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | February 2024

TYNDALL

Review

Continuing the theme of the previous month, equity market performance was mixed once more in February. US markets specifically, driven on by the seemingly insatiable appetite for anything ‘artificial intelligence’ related, made further solid progress. Sadly, yet again, the UK equity market did not really participate, and the iShares UK Equity Index tracker gained just +0.67% for the month.

There were no material changes in February to the major themes that have preoccupied market participants for some time now. Economic data continues to paint a mixed, although generally still resilient, picture. That, alongside slightly ‘stickier’ than expected inflation data, has caused government bond yields to rise again and investors have pulled back expectations for both the imminent start, and ultimate scale, of potential interest rate cuts by central banks during 2024.

Elsewhere, there was no respite in the ongoing geopolitical conflicts around the world and the second anniversary of the Russian invasion of Ukraine passed without any obvious signs of the conflict nearing a resolution. Russia was also in the news again following the sad death of the prominent opposition leader Alexei Navalny in a remote penal colony.

Here in the UK, the most widely predicted recession in recent history finally arrived as GDP fell -0.3% in the final quarter of 2023, following a -0.1% contraction in the third quarter. Whilst two consecutive quarters of negative growth fulfils the technical definition of a recession, it remains a highly unusual one given other datapoints that include an unemployment rate of just 3.8%, 932,000 job vacancies in the 3 months to January 2024 and annual growth for regular earnings of 6.2% in the final quarter of 2023. As one economist quipped, perhaps we need a better definition of a recession.

Fund performance / Activity

Given the muted performance of UK equities again in February, and specifically further underperformance for the mid-cap area of the market, we felt that our fund performance was respectable for the month. Our fund gained +0.35% (share class A GBP Net Accumulation), marginally behind the iShares UK Equity Index tracker gain of +0.67%, but ahead of the peer group average loss of -0.50%.

There were a variety of individual positive contributors to performance in February, including Intermediate Capital, DS Smith, Dunelm, DFS Furniture and Vistry. Not owning index heavyweight AstraZeneca also proved beneficial as their share price fell. There were an equal variety of detractors from performance including Entain, Games Workshop, OSB Group, Imperial Brands and RS Group.

Activity was relatively modest in February, adding one completely new holding, property services business Savills, and making no complete disposals from the portfolio. We took profits in holdings such as Intermediate Capital, Hill & Smith, Howden Joinery and Rolls-Royce, and we added to positions including Dunelm, OSB Group, Telecom Plus, Ashmore and Games Workshop.

Market Outlook

Except for the relentless outperformance of US technology stocks, particularly those exposed to artificial intelligence, it feels as though equity markets have entered something of a consolidation phase whilst awaiting greater clarity on the economic outlook. Specifically, we sense an increasing uncertainty around the outlook for inflation and the possibility that it may rebound somewhat during the balance of 2024.

We noted last month that we felt that markets might need to get more comfortable with interest rates not coming down as quickly as many have hoped, and we suspect that is a key issue currently in this consolidation period. As we have also mentioned previously, we remain perfectly comfortable with this scenario if it is for the right reasons, principally growth continuing to surprise positively.

Notwithstanding the 'technical' recession here in the UK, we remain positive on the outlook for growth and corporate earnings looking forwards. If our view proves correct, we expect such a scenario to be reflected in better UK equity market performance in the months ahead than we have seen at the start of 2024. We will not repeat our views here on the seemingly relentless negativity towards all things UK related currently. Suffice to say, as frustrating as it is in the near term, the opportunity being presented in UK assets consequently looks outstanding to us, even if a high degree of patience appears to be required.

As we commented last time, we are not at all surprised to see this period of consolidation given the market strength of recent months, although we hope it does not persist for too long. Regardless of the near term outlook, 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

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

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