VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | March 2024

TYNDALL

Review

The global equity bull market gathered further momentum during March, with solid gains being made across most geographies around the world. For once, the UK equity market was a healthy participant, and the iShares UK Equity Index tracker gained +3.77% for the month. For the first quarter of 2024 the tracker gained +2.82%. Whilst respectable enough, this gain was materially lower than those delivered by many other developed equity markets, particularly in the US, Japan, and Europe.

Economic data during March continued to paint a relatively resilient picture, particularly in the US, but also more broadly. Meanwhile, despite inflationary data generally surprising to the upside, major central bank commentators continued to point to the middle of the year as the most likely timeframe for starting to cut interest rates. This relatively reassuring message was music to the ears of equity market investors and a ‘risk on’ attitude became increasingly evident.

Elsewhere, there remains no material respite in the ongoing geopolitical conflicts around the world and resolutions appear, sadly, no closer. Over in China, the authorities continue their attempts to reinvigorate economic growth with some signs, at last, of gaining traction. The potential impact of success on the global growth outlook could be significant and, in that context, it is interesting to see industrial commodity prices, such as for oil and copper, starting to make progress once more.

Here in the UK, the Chancellor delivered the Spring Budget which was, by and large, relatively uneventful. A headline grabbing 2p cut to National Insurance was the primary policy change of note, although the relatively poor state of the UK’s capital markets was at least acknowledged. A new ‘British ISA’ was announced, alongside new disclosure requirements for pension funds holdings in UK equities. To what extent these measures will have any meaningful impact remains to be seen but the initial industry response has been sceptical at best we would suggest.

Fund performance / Activity

It was pleasing to see the strong performance of UK equities in March and, given a more ‘risk on’ environment, we felt that our fund performance was mildly disappointing for the month. Our fund gained +4.05% (share class A GBP Net Accumulation), ahead of the iShares UK Equity Index tracker gain of +3.77% but modestly behind the peer group average gain of +4.42%.

There were a variety of individual positive contributors to performance in March, most notably from DS Smith, TP Icap, Vistry, Bodycote, Telecom Plus and Savills. There were an equal variety of detractors from performance including Entain, OSB Group, DFS Furniture, Ashmore and MoneySupermarket. Not owning index heavyweights AstraZeneca, Shell and HSBC also proved detrimental as their share prices rose.

Activity was relatively muted in March, adding no completely new holdings, and making only one complete disposal, of resources company Glencore. We took profits in holdings such as Vistry, Howden Joinery and Rolls-Royce, and we added to positions including RS Group, IWG, WH Smith, Inchcape, Savills, and Wickes.

Market Outlook

The 'consolidation' phase for equity markets that we referred to last month appears to have broken out to the upside during March. To what extent this reflects a more encouraging outlook for growth or a more relaxed view of the direction of monetary policy, or some combination thereof, remains to be seen.

Should this prove to be a durable move higher, we would expect a continued broadening out of equity market participation away from the narrow leadership that has characterised market moves recently. In this respect we see encouraging signals, although it is relatively early days and we will, obviously, continue monitoring developments closely.

Whilst we are excited about the prospect of further equity market progress in the period ahead, we are also cognisant that investor sentiment, following several months of solid market gains – particularly in the US, is approaching 'euphoric' levels according to several widely followed surveys. As such, there exists the very real possibility of a market setback at any time.

Notwithstanding the ever-present possibility of a short-term setback, we are pleased to see this further move higher and we hope it will be sustained and built upon in the weeks and months ahead. 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 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.