VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | April 2024

TYNDALL

Review

The global equity bull market took a break for many regions during April, with a reasonable pull back in America, Europe and much of Asia. In a change from recent experience, the UK equity market significantly outperformed, and the iShares UK Equity Index tracker gained +3.16% for the month. The UK market, particularly in the large cap area, has significant exposure to companies in the natural resources sectors as well as companies that earn most of their revenues in US dollars. As discussed below, these were likely key contributors to the UK's outperformance in April.

The prospect of inflation rising again, from current elevated levels, was the primary cause of concern for equity market participants during April. This was particularly the case in the USA where economic growth has also proven more resilient than in other regions recently. The impact has been for markets to move from expecting several interest rate cuts from the Federal Reserve in 2024 to, at best, one or two cuts and quite possibly none.

The knock-on effects of this repricing of interest rate moves have included a stronger Dollar and a significant move higher in bond yields, with short term (2-year) US yields once again reaching the 5% level. Commodity prices have also been rising substantially of late, most notably oil and copper, and this has further fuelled inflation anxiety. Given this backdrop, it is perhaps not surprising to have seen many equity markets pull back somewhat.

Elsewhere, after a worrying escalation of hostilities between Israel and Iran, there are tentative signs emerging of a potential truce in the conflict in Gaza, although details remain limited at this stage. Meanwhile, the US finally signed off on an additional $61 billion of much needed support for Ukraine in its ongoing conflict with Russia.

Momentum in European economic data points have shown early signs of recovery of late as have those of the UK. In this context, it will be interesting to see whether the ECB and/or the Bank of England cut interest rates ahead of the US Federal Reserve in 2024. Historically they have been reluctant to do so although, currently at least, markets are expecting them to press ahead.

Fund performance / Activity

It was pleasing to see the robust performance of UK equities in April, although disappointingly from our perspective, gains were predominantly focussed on the largest companies in the market. Given our extensive exposure to mid-sized companies our fund performed relatively poorly over the month, gaining +0.52% (share class A GBP Net Accumulation), underperforming both the iShares UK Equity Index tracker gain of +3.16% and the peer group average gain of +2.78%.

There were several individual positive contributors to performance in April, including holdings such as OSB Group, Polar Capital, Inchcape, Telecom Plus and Savills. There were an equal variety of detractors from performance including WH Smith, Dunelm, DS Smith, TP Icap and EasyJet. By far the biggest detractors though were index heavyweights that we do not own whose share prices performed strongly. These included AstraZeneca, Shell, HSBC, Anglo American and Unilever.

We were a little more active in the portfolio in April, adding one completely new holding, industrial engineer IMI, and making one complete disposal, of packaging group DS Smith. We took profits in holdings such as Vistry, Intermediate Capital, Ashtead, and Hill & Smith, and we added to positions including RS Group, Imperial Brands, Moneysupermarket.com, Breedon, Savills and PageGroup.

Market Outlook

Having argued last month that equity markets were breaking out to the upside, April has brought a reasonable correction for many, leaving the near-term outlook more uncertain. The key issue creating material anxiety is the possible reacceleration of inflation and its implications for monetary policy developments over the balance of the year.

We also noted last month that investor sentiment had, according to many widely followed surveys, reached 'euphoric' levels and as such 'there exists the very real possibility of a market setback at any time.' Sure enough, that may well be what is occurring at the current time.

We have long been perplexed by the fixation of market participants on the need to see interest rates falling rapidly. We understand the desire to 'return to normal' but arguably the recent period of ultra-low interest rates was anything but normal in a historical context. Most western economies are adjusting to higher interest rates reasonably well and, providing that continues to remain the case, a genuine cost of capital ought to be seen as a healthy development in due course. It may take the passage of time for investors to get comfortable with this prospect, but we are optimistic they will do so eventually.

The increasing anxiety over inflation and the future path of monetary policy comes as we move into the traditionally weaker period of the year for equity markets and so it is entirely possible that markets remain unsettled in the near-term. This prospect notwithstanding, 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

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