VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | June 2024

TYNDALL

Review

June was a mixed month for global equity markets, with continued notable strength in the US alongside weakness in Europe, particularly France, due to heightened political uncertainty as discussed below. The UK muddled through, albeit in an increasingly defensive manner, and the iShares UK Equity Index tracker gaining +0.33% for the month. In a return to recent form, shares in the mid-cap and small-cap areas of the market significantly underperformed their large-cap counterparts during June.

Economic data generally took on less significance than usual during June as the headlines were dominated by political developments both domestically and in Europe and the US. What data we had typically came in on the 'softer' side of expectations, particularly in relation to broad US economic activity and the nascent recovery in European manufacturing.

On the political front, election campaigning went into overdrive in the UK with the July 4th General Election date fast approaching. Polls continue to suggest a new Labour government with the only real question being the size of their end majority. Meanwhile, Reform UK has seemingly made substantial inroads with traditional Conservative supporters, again if the polls prove accurate.

Overseas, the biggest surprise of the month was President Macron of France calling snap national elections following significant gains for the far-right National Rally party in the earlier European Parliament elections. At the time of writing, the gamble looks like backfiring on Macron as, after the first round of voting, National Rally appear well on course for a, potentially significant, position of power in French politics. What the ultimate consequences of this shift right are for France, and the European area more broadly, remain to be seen.

Not to be outdone, towards the end of the month, a highly anticipated debate between Donald Trump and Joe Biden in the US appears to have gone disastrously for the current President. Such was the apparently poor performance, that fundamental questions are now being asked over his capacity to serve another term in office and whether it may even prompt an attempt by the Democratic party to install another candidate ahead of the November election.

Finally, both the Bank of England and the Federal Reserve in the US kept interest rates on hold again at their meetings this month, although the European Central Bank did push ahead with its first 0.25% interest rate cut of the current cycle. Investors continue to hope that the former two central banks follow suit in the near future.

Fund performance / Activity

June proved to be another frustrating month for fund performance, not helped by a more defensive feel to the UK market and a return to significant underperformance of mid-caps, where our fund is heavily invested, compared to large-caps. As such, our fund fell -2.91% (share class A GBP Net Accumulation), underperforming both the iShares UK Equity Index tracker gain of +0.33% and the peer group average fall of -1.24%.

There were several individual positive contributors to performance in June, including holdings such as Games Workshop, Polar Capital, RS Group, and Imperial Brands. However, these were more than offset by significant detractors from performance, largely in the mid-cap cyclical space, including Ashmore, Bodycote, PageGroup, Vesuvius, Inchcape, Vistry and TP Icap.

Activity was more muted in June, adding one completely new holding in Kier Group, and making no complete disposals. We also added to positions in Just Group, Morgan Advanced Materials, RS Group and Wickes and we took profits in Intermediate Capital, Telecom Plus, Vistry and Rolls-Royce.

Market Outlook

Political uncertainty is potentially rising materially, at a time where economic data is relatively soft, central banks appear in no rush to aggressively cut interest rates, and seasonally we are entering the quieter, often weaker, summer months in equity markets. Given the above, it would not surprise us at all to see a more hesitant period for equities immediately ahead. Whether that translates into substantial weakness, however, remains to be seen.

Looking beyond the near-term uncertainty, equity markets are likely to take their lead from the traditional market drivers of economic growth, inflation and interest rate expectations, and corporate profitability progression. On all these fronts we remain relatively sanguine and hence constructive on the market outlook. Whilst economic data has been somewhat soft of late, we do not see the conditions in place for substantial further weakness ahead. Meanwhile, inflation continues to, slowly, come under control and the probability of interest rate reductions in the months ahead continues to increase. Corporates are generally in good financial shape, and we will get further updates in that regard during the next reporting season which starts shortly.

As we frequently finish this outlook section, when we analyse the collection of stocks in our portfolio today, we remain extremely enthusiastic for the upside potential on offer over the medium term, 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.