VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | July 2024

TYNDALL

Review

July was another relatively mixed month for global equity markets, with political events dominating the headlines and some pronounced rotations occurring within markets, particularly towards outperformance of small and mid-sized companies. The UK market performed well relatively, and the iShares UK Equity Index tracker gained +1.90% for the month.

Once again political events took centre stage during July. In the UK, the polls proved broadly correct with the Labour party taking power with a substantial majority of 172, having secured 411 of the available 650 seats in parliament. Initial reactions from markets suggest the prospect of a degree of political stability is being broadly welcomed by investors. To what extent this enthusiasm persists will depend largely on the credibility of the 'pro-growth' policies yet to be announced.

Meanwhile over in the US, Donald Trump survived an assassination attempt and duly accepted the Republican nomination for the forthcoming election. In contrast, President Biden finally succumbed to the intense pressure post the disastrous debate performance and stepped down from seeking a second term. Vice-President Kamala Harris has subsequently stepped up to try and prevent the outcome many see as inevitable – a second Trump term in office. Lastly, political stalemate was the outcome of the snap elections called in France. Whilst not as disastrous for President Macron as some had feared, the outcome looks far from satisfactory.

Economic data, with the exception of the UK, continued to disappoint during July with pronounced weakness in manufacturing across the globe and increasing concerns over the deterioration in US economic performance of late. Ongoing concerns over the state of the Chinese economy showed no signs of easing, despite yet further attempts by the authorities to add stimulatory support. Towards the end of the month, the US Federal Reserve kept interest rates on hold at their latest meeting and, despite strongly hinting at a rate cut in September, investors are starting to believe the Fed is now too restrictive and 'behind the curve' once more.

We noted above the significant rotation towards small and mid-sized companies during the month and that was true across many equity markets. To what extent that is reflective of a broadening out of leadership and therefore a 'positive' development, or alternatively a recognition that certain themes, most notably the frenzy for all things artificial intelligence related, had gone too far and as such a 'negative' development remains to be seen.

Fund performance / Activity

After several frustrating months of fund performance, July was much stronger for our portfolio. A combination of increased enthusiasm for the UK, combined with the significant outperformance of small and mid-sized companies, proved highly beneficial. As such, our fund gained +6.75% (share class A GBP Net Accumulation), significantly outperforming both the iShares UK Equity Index tracker gain of +1.90% and the peer group average gain of +4.07%.

Unsurprisingly, there were several individual positive contributors to performance in July, largely focussed on domestic UK mid-market holdings. These included Kier, Savills, Dunelm, WH Smith, OSB Group, Just Group, Vistry and Breedon Group. Detractors were more limited and included EasyJet, Entain and Prudential. Not owning HSBC and Unilever also proved relatively detrimental.

Activity was relatively muted during July although we did add one new holding to the portfolio, building materials group Marshalls. We also made one complete disposal, of the balance of our holding in Rolls-Royce, one of the strongest performers for our portfolio over the last few years. We added to Kier, Morgan Advanced Materials and DFS Furniture and we took profits in Imperial Brands, Ashtead and Hill & Smith.

Market Outlook

We noted last month the potential for a trickier period for equities as we enter the summer months and, at the time of writing, this appears to be materialising, with some significant weakness occurring in various geographic regions and sectors of global equity markets.

As is always the case in these scenarios, explanations abound as to the causes and implications of a sudden change in market behaviour. Many investors are starting to question, in the face of disappointing recent data, whether the US Federal Reserve is now behind the curve and is steering the US towards a recession. Others point to the sudden appreciation of the Japanese Yen – a currency often used to borrow cheaply to reinvest elsewhere, as causing a major 'unwind' of crowded trade positions, leading to forced selling of previously popular assets. There may well be some truth in any or all of these explanations or indeed it may be something entirely unrelated that is the primary driving force.

Our own view remains that the economic outlook is generally ok, consumers and companies are in good financial shape, government fiscal expenditure is supportive, inflation has retreated to reasonable levels, and interest rates have peaked and are now coming down, or will do shortly, in many countries around the world. This view gives us a broadly constructive outlook for markets in the period ahead, notwithstanding the current volatility.

Regardless of the uncomfortable nature of short-term market moves such as these, we consider it extremely important to focus on the medium-term opportunities presented to us at such times. We have noted frequently our enthusiasm for the medium-term potential of our portfolio and that remains the case today. To the extent that several of our holdings have seen a significant correction in share prices recently, we are enthusiastic purchasers at, what we see as, even more attractive prices currently.

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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