VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | August 2024

Review

Whilst at the headline level many equity markets appeared to make steady progress in August, this masked an extremely volatile month with sizeable falls initially, and solid rebounds thereafter. The UK equity market was no exception, with the iShares UK Equity Index tracker first falling c.5% before ending the month with a gain of +0.57% for the period as a whole. In a reversal of the previous month, large-cap companies materially outperformed their mid and small-sized counterparts.

In a change from recent months, politics did not dominate market discussions during August but rather market movements themselves made the headlines. The early part of the month saw significant falls across many equity markets. Whilst the exact causes of such moves are always had to say definitively, a key contributing factor appears to have been a surprise interest rate increase by the Bank of Japan, leading to a sharp appreciation in the yen and a rapid unwinding of the 'carry trade' – essentially borrowing in yen to invest in assets in other currencies. This was compounded by weaker than expected US economic data, heightening fears that the Federal Reserve is 'behind the curve' and, with interest rates too restrictive, a US recession is likely.

Over the balance of the month, markets recovered their poise in impressive fashion as the rapid unwinding of the 'carry trade' did not appear to cause knock-on financial issues. Additional economic datapoints offered reassurance as to the health of the US economy, and important commentary from Fed chairman Jerome Powell reinforced expectations that interest rates will start to be reduced at the next meeting in September.

Other points of note included ongoing weakness in European and Chinese economic data, with the latter proving particularly worrisome as attempts by the authorities to stimulate growth continue to show little, if any, traction. Geopolitical issues remain very much a live theme for investors, with several twists and turns in the ongoing conflicts in the Middle East and Russia/ Ukraine and seemingly no resolution in sight for either. Meanwhile, on the corporate earnings front, several of the dominant US technology stocks reported continuing strong growth but fell short of bullish analyst expectations, including the poster child of them all Nvidia.

Finally, here in the UK, the Bank of England made its first cut in interest rates since March 2020, reducing base rate to 5.0%. Whilst certainly a welcome development for many, we also had a series of speeches from the new Labour government laying the groundwork for several potential tax increases in the upcoming autumn budget. The latter appears to have had a dampening effect on the initial enthusiasm for the Labour 'pro-growth' agenda. To what extent this is a temporary blip or something more significant we will find out in due course.

Fund performance / Activity

After the very strong performance of July, August was a weaker month for our portfolio. Whilst the broader market recovered well from the initial sell-off, mid-sized companies struggled to keep pace and market leadership came largely from more defensive areas. As such, our fund fell -1.41% (share class A GBP Net Accumulation), underperforming both the iShares UK Equity Index tracker gain of +0.57% and the peer group average gain of +0.06%.

There were several individual positive contributors to performance in August including Just Group, Wickes, Entain, EasyJet and DFS Furniture. However, these were more than offset by detractors which included OSB Group, Vesuvius, Morgan Advanced Materials, Savills and Polar Capital. Not owning AstraZeneca also proved relatively detrimental.

We were reasonably active during August. We added no completely new holdings although we did add to RS Group, Bodycote, Vesuvius, Kier and Marshalls. Theses were funded by 2 complete disposals of companies that have performed strongly for the portfolio – Ashtead and Hill & Smith, as well as profit taking in Just Group, Vistry and Imperial Brands.

Market Outlook

As we have mentioned previously, the summer months can be a notoriously tricky period, and August certainly had its share of volatility. Whilst markets largely recovered by month end, the nervousness surrounding the outlook remains understandable as we now enter what, historically speaking, is the weakest month of the year for equities.

Regardless of the potential for near term volatility, our own view remains that the economic outlook is generally ok. Whilst we are somewhat disappointed that economic activity, particularly in the global manufacturing sectors, has not been stronger so far this year, it remains the case that consumers and companies are in good financial shape, government fiscal expenditure is supportive, inflation has retreated to reasonable levels, and interest rates are now coming down in many countries around the world. This view gives us a broadly constructive outlook for markets in the period ahead.

As always, regardless of the nature of short-term market moves, we consider it extremely important to focus on the medium-term potential of our investments and, as we have noted frequently, our enthusiasm for the medium-term potential of our current portfolio is substantial. As such, 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: Simon Murphy – smurphy@tyndallim.co.uk
Head of Distribution: Theresa Russell – trussell@tyndallim.co.uk

ELITE RADAR
on our watchlist: FundCalibre.com

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