VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | September 2024

TYNDALL

Review

Major equity markets around the world generally made further progress in September, with particular strength in Hong Kong and China as discussed below. Here in the UK, perhaps hampered by the continued strength in Sterling, it was a slightly different story, with the iShares UK Equity Index tracker falling -1.24% over the period.

This month it was the turn of central banks to dominate the headlines once more as, after months of speculation, the US Federal Reserve cut interest rates for the first time since March 2020, and by a substantial 0.5%. Markets took the news in their stride, as expectations appeared to be well managed heading into the decision, and a raft of data points suggested a still solid US economic backdrop.

Meanwhile, after several months of incremental stimulus seemingly doing little to revitalise the Chinese economy, policymakers unveiled a much broader package of fiscal and monetary stimulus measures in September. These included cuts to reserve requirement ratios and benchmark interest rates, reductions in outstanding mortgage rates, and the introduction of new monetary tools aimed at stabilising the stock market. After an initial bout of scepticism, markets are starting to believe in the potential efficacy of these measures, with the result being an extremely powerful rally in stocks listed in China and Hong Kong, alongside potential beneficiaries listed elsewhere, such as global mining and luxury goods companies.

Other notable developments during September included further weakness in the oil price, in part due to ongoing concerns for the global economic outlook but also due to fears that OPEC members may not maintain their previous commitment to production cuts. Additionally, tensions in the Middle East continued to build as Israel, still fighting heavily in Gaza, started ratcheting up attacks on the Lebanese militant group Hezbollah.

Finally, here in the UK, the Bank of England held interest rates steady, as expected, at its latest meeting in September. Meanwhile, uncertainty surrounding potential tax increases in the upcoming budget continued to build and has clearly, in the short term at least, had a detrimental impact on consumer and business confidence, as was shown in a variety of survey data during the month.

Fund performance / Activity

Despite the weakness in the broader UK equity market, September was a relatively strong month for our portfolio. As such, our fund gained +0.80% (share class A GBP Net Accumulation), outperforming both the iShares UK Equity Index tracker loss of -1.24% and the peer group average loss of -1.30%.

There were several individual positive contributors to performance in September including Ashmore, WH Smith, Entain, EasyJet, Weir and Intermediate Capital. However, our biggest positive contributors were two companies we do not own – index heavyweights AstraZeneca and Shell, whose share prices underperformed significantly during the month. Detractors to performance included Morgan Advanced Materials, Kier, Bodycote, Dunelm, Inchcape and Vesuvius.

Activity was relatively modest during September. We introduced one completely new holding, mining company Rio Tinto, and we added to Marshalls, Morgan Advanced Materials, Just Group and Kier. We made no complete disposals during the month and these additions were funded by profit taking in Imperial Brands, Intermediate Capital, Howden Joinery, Vistry and EasyJet.

Market Outlook

Global equity markets navigated September relatively well and now all eyes turn to the fourth and final quarter of 2024. October also has a reputation as a potentially volatile month, and at the time of writing Middle Eastern tensions are escalating quite rapidly. Notwithstanding the possibility of near term volatility as a consequence, there are, in our opinion, many reasons to remain optimistic for the balance of this year and into 2025.

As we have referenced numerous times historically, corporate and consumer balance sheets remain in good shape and, in both cases, the gradual reduction in interest rates taking place across much of the western world will only serve to strengthen the situation. On the corporate side, global manufacturing activity levels are currently relatively low and, with destocking having taken place across many industries, it does not seem unreasonable to anticipate a better period of activity in the months and years ahead.

Here in the UK, we are particularly enthused by the potential for consumers to start spending meaningfully again following several difficult years. With inflation down to more manageable levels, employment and wage growth still healthy, and housing market activity starting to recover, the foundations for robust consumer spending look to be in place. Whist there remains uncertainty over the imminent budget proposals, we suspect the bigger issue is medium term confidence levels, following an incredibly volatile period. It may take some time therefore for the recovery to gain full traction, but we see many exciting investment opportunities in this area over the years to come.

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 such, our enthusiasm for the medium-term potential of our current portfolio is substantial. Consequently, 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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