VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | October 2024

TYNDALL

Review

After several months of solid gains, global equity markets were generally lower during October. The UK equity market was no exception, and the iShares UK Equity Index tracker fell -1.47% over the period.

Notwithstanding recent moves by western central banks to start cutting interest rates, bond yields moved significantly higher during October, particularly in the US and UK. In the former case, economic data continues to point to a reasonably robust growth outlook and inflation data, for now at least, remains relatively benign. As such, the most likely cause of rising bond yields has been a notable increase in anxiety surrounding the fiscal plans of both presidential candidates in the upcoming election. With deficits already high and promises of significantly higher spending still from both sides, markets are, quite rightly, beginning to question who might fund all the additional spending and what rate of interest might be required.

Meanwhile, it was a similar story in the UK as the much anticipated first Labour government budget for nearly 15 years was delivered at the end of the month. Whilst most of the tax increases and additional spending commitments were well trailed in advance, it was the scale of additional government borrowing over the next few years which surprised markets and added fuel to the recent rise in bond yields.

Elsewhere, the ongoing tensions in the Middle East escalated yet further, with Iran launching a barrage of ballistic missiles at Israel, and Israel duly responding with several strikes on Iranian military targets. Over in China, the authorities continued their efforts to stimulate economic growth through a range of further initiatives. Whilst scepticism still abounds as regards their efficacy, we sense a greater proportion of market participants are willing to believe they will eventually succeed.

Finally, according to most polls the outcome of the US election, due imminently, is too close to call. With potentially significant market ramifications depending on the winner, given widely diverging policy proposals, it is perhaps no surprise that investors have turned incrementally more cautious in the short term.

Fund performance / Activity

Our fund's relative performance has alternated between strong and weak over the last few months, and after a relatively strong September, October was considerably weaker again. As such, our fund fell -4.18% (share class A GBP Net Accumulation), materially underperforming both the iShares UK Equity Index tracker loss of -1.47% and the peer group average loss of -2.21%.

There were several individual positive contributors to performance in October including DFS Furniture, Games Workshop, Kier, Marshalls, and Ashmore. However, these were not sufficient to offset the significant detractors during the month, including RS Group, Vistry, Morgan Advanced Materials, Vesuvius, WH Smith, Savills, OSB Group and others.

Activity was relatively modest again during October. We introduced one completely new holding, mining group Anglo American, and we added to Rio Tinto, Prudential, Vesuvius, Bodycote, and Morgan Advanced Materials. We made one complete disposal during the month, of house builder Vistry following a disappointing trading update, and we also took profits in Ashmore, Telecom Plus and EasyJet.

Market Outlook

Given the rapid recent rise in bond yields discussed earlier, and the significant uncertainty surrounding the outcome of the US presidential election, it is understandable that market participants have become more cautious in the short term. It is also entirely possible, post-election, that market volatility persists for a period.

Looking beyond the immediate future however, we continue to believe there are significant grounds for optimism regarding the equity market outlook as we move towards 2025. Regardless of the US presidential race outcome, the outlook for US fiscal policy remains highly stimulatory alongside a gradual reduction in interest rates from the Federal Reserve. Meanwhile, the Chinese authorities are showing a much greater degree of commitment to stimulating economic growth now than has been the case for several years. Given the US and China represent the two largest economies in the world, these measures are highly supportive for global growth going forwards.

Here in the UK, whilst there is an inevitable degree of short-term angst from the business community regarding some of the new governments specific tax policies, we still believe the broad shape of the economic outlook remains positive. We remain enthused by the consumer outlook and the prospects of improved consumer spending, always a key driver of the UK economy, aided by a continued, gradual reduction in interest rates. We also remain optimistic that, post a highly uncertain period in the lead up to the budget, both consumer and business confidence can continue to recover 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 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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Data source (unless otherwise stated): Bloomberg, FE Analytics

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