Review

Global equity markets were driven primarily by the potential implications of the return of Donald Trump as US president during November. Following a dominant election result, with an effective clean sweep for the Republican party, equity market performances varied widely as perceived winners and losers emerged. In that context, UK equites put in a respectable performance and the iShares UK Equity Index tracker gained +2.51% over the period.

In the end the election result was nowhere near as close as had been predicted, with the added surprise of a Republican clean sweep, taking control of both the Senate and the House of Representatives. Consequently, investor attention turned to the potential implications of Trump's 'America First' fiscal, trade and immigration policies. Initial market behaviour is suggestive of further outperformance of the US economy, and stock market, driven by lower taxes, more spending and looser regulation. The US dollar also rallied strongly against most major currencies around the world.

In contrast, the search for potential losers centred on those most exposed to US tariffs, should they be enacted to the degree suggested pre-election. To that end it is perhaps not surprising that, alongside those most obviously impacted (Mexico, Canada, and China), Continental Europe also struggled over the month – with additional political uncertainty in France thrown in for good measure. Whilst the possibility of a significant escalation in the trade war between the US and China is a serious concern for the global economic outlook, China continues to take measures to stimulate the domestic economy as we move towards 2025.

Here in the UK, domestic attention focussed on the continued fallout from the first budget of the new Labour government at the end of last month. Business confidence has clearly taken a hit given the scale of tax increases they face in order to part fund the significant increase in government spending – estimated to be c.£70bn pa according to the Office for Budget Responsibility. What the medium-term implications will be for investment, job growth, wages and so on remains to be seen, although it is hard to see, at face value, how these measures square with Labour's growth agenda. On a slightly less pessimistic note, consumer confidence has shown signs of recovery post the uncertainty leading up to the budget, and the housing market continues to show signs of momentum returning.

Fund performance / Activity

Our fund's relative performance 'yo-yo' continues as, following a relatively weak October, we had a much stronger relative performance period in November. As such, our fund gained +3.35% (share class A GBP Net Accumulation), outperforming both the iShares UK Equity Index tracker gain of +2.51% and the peer group average gain of +2.11%. This was a pleasing performance given that UK mid-cap stocks, an area of the market we are heavily concentrated in, did not perform particularly well relatively.

There were several individual positive contributors to performance in November including Vesuvius, TP Icap, Bodycote, OSB Group, Games Workshop, and Morgan Advanced Materials. There were a fewer number of individual negative contributors, including Ashmore, Wickes, WH Smith and Howden Joinery. Not owning market heavyweights HSBC and British American Tobacco also proved detrimental as their share prices performed relatively well.

Activity was relatively modest again during November. We introduced one completely new holding, luxury goods company Burberry, and we added to RS Group, Savills, WH Smith, Prudential and Entain. We made one complete disposal during the month, of automotive distributor Inchcape, and we also took profits in TP Icap, Imperial Brands, Games Workshop, and IMI.

Market Outlook

The uncertainty surrounding the outcome of the US presidential election that we discussed last month has, post the resounding Republican landslide, rapidly given way to a building consensus as to the implications – essentially a more robust outlook for the US economy, the US dollar and US asset markets and a more uncertain outlook for everyone else, particularly those most directly in the crosshairs for new tariffs. Whilst we understand the logic behind such conclusions, we are not at all convinced the outcome will be that straightforward.

We welcome a potential improvement in the growth outlook for the US, being the leading global economy, however we do not believe the outlook elsewhere has necessarily changed that dramatically. Key obviously will be the extent to which Trump follows through on some of the more draconian tariff threats, and whilst that is eminently possible, we consider it much more likely a negotiating tactic. Meanwhile, China is showing a continuing willingness to stimulate the domestic economy further and interest rates continue to come down across many areas of the world. There is also the potential for a materially lower oil price, which would be highly beneficial to the global growth outlook, if the US does get serious about significantly increasing domestic production further.

Here in the UK, business confidence has undoubtedly suffered because of the tax increases in the budget and the implications will need monitoring carefully. Notwithstanding this concern, we still believe the broad shape of the economic outlook remains positive. We remain particularly 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 alongside sustained increases in disposable income and a recovery in housing market activity. Meanwhile, we note with more than a passing interest the significant recent pick up in acquisition activity in the UK equity market which, to our minds, further highlights the attractiveness of UK equities at the current time.

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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