



Review

Global equity markets finished 2024 in subdued fashion as most major indices fell during the month of December. Central banks were the focus of attention once more, with less accommodative commentary leading to falls in many equity and bond markets around the world. The UK equity market did not escape the decline, and the iShares UK Equity Index tracker fell -1.09% over the period. For 2024 as a whole, the Index tracker gained +9.28%.

Following the initial euphoria post Trump's comprehensive election victory in November, markets increasingly focussed on the potential negative implications of the 'America First' policies during December, specifically relating to possible trade wars and the inflationary implications of higher trade tariffs. Whilst the Federal Reserve duly cut interest rates again as expected, their commentary aggravated the situation with a significantly more 'hawkish' tone and a forecast of only 0.5% further interest rate cuts in 2025, materially less than market expectations. The result was a sizeable selloff in both equities and bonds to end the year.

A similar development occurred in Europe, with the ECB cutting rates in December but remaining relatively hawkish in terms of prospects for further easing during 2025, leading to a significant selloff in government bonds across the region. Meanwhile, France's political woes continued as Michel Barnier's government fell, following the first successful no-confidence vote since 1962. Over in Asia, the debate over the economic outlook for China continued, with still weak current data balanced against expectations for yet further policy stimulus from the central authorities as 2025 progresses.

Here in the UK, domestic attention remained resolutely focussed on the ongoing fallout from the recent budget. What the medium-term implications will be for investment, job growth, wages and so on remains to be seen, although it is clear that business confidence has taken a very material hit which may take some considerable time to recover from. Meanwhile, the Bank of England, unlike the Fed and the ECB, chose not to cut interest rates at their latest meeting, judging the risk of elevated inflation as material enough to warrant holding rates at 4.75%. A greater than expected three of the nine committee members did vote to cut rates though, which is perhaps a helpful signal that interest rates will continue to fall during 2025 should the inflation outlook not deteriorate significantly further.

Fund performance / Activity

Our fund's relative performance 'yo-yo' continued again in December as, following a relatively strong November, we had a weaker relative performance period in December. As such, our fund fell -1.93% (share class A GBP Net Accumulation), underperforming both the iShares UK Equity Index tracker fall of -1.09% and the peer group average loss of -1.21%.

There were several individual positive contributors to performance in December including Just Group, Burberry, Bodycote, Vesuvius, Wickes, and Morgan Advanced Materials. However, these were insufficient to offset the negative contributors, which included Entain, Marshalls, Ashmore, Dunelm, Breedon, and PageGroup. Not owning market heavyweights HSBC and Diageo also proved detrimental as their share prices performed relatively well.

Activity was relatively modest once more during December. We introduced one completely new holding, specialist polymer business Victrex, and we added to Burberry, Marshalls, Prudential,



Ashmore, and Dunelm. We made one complete disposal during the month, of kitchen manufacturer Howden Joinery, and we also took profits in Just Group, Games Workshop, Imperial Brands, and Weir.

Market Outlook

Equity markets ended 2024 in uncharacteristically cautious mood with scant evidence of the traditional 'santa rally' to be seen. Uncertainty surrounding the ultimate scale and impact of potentially radical economic policies under the second Trump administration is clearly weighing on investor sentiment. Likewise, the significant rise in government bond yields in many geographies in recent months is raising questions as to the sustainability of expansionary fiscal policies adopted by many countries. Equally though, investor sentiment had, according to several widely followed market surveys, become fairly euphoric of late and as such a 'healthy' correction was possible at any time.

As we look towards the outlook for 2025 there are, as always, numerous competing factors that will determine the trajectory of growth for economies and markets alike. Whilst we do not invest based on macroeconomic forecasts, our 'big picture' expectations are for 2025 to be a moderately better growth environment than 2024. This is predicated on much of the western world seeing a combination of continued, gradual reductions in interest rates, inflation remaining relatively well anchored, and ongoing fiscal stimulus, alongside further growth friendly measures in countries such as China. Implicitly we are expecting the most draconian of Trump's suggested trade tariffs to ultimately be bargaining chips and not to actually come to pass.

Here in the UK, whilst we have the added complication of the fallout following the significant tax increases in the recent budget, we also have a stock market which, in our view, looks outstandingly cheap and where sentiment remains as negative as we can recall at any point in our careers. We remain positive on 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, given how much value we believe is on offer currently, we expect the significant recent pick up in acquisition activity in the UK equity market to continue for the foreseeable future.

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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